AMG GW&K Municipal Bond Fund

COMMENTARY

ASSET CLASS | FIXED INCOME

Class N | GWMTX Class I | GWMIX

GW&K INVESTMENT MANAGEMENT

Average Annual Returns (%)[1] (as of 09/30/20)

	Q3	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.[2]
GWMTX (Class N)	0.78	2.73	3.21	3.48	3.09	3.50	4.24
GWMIX (Class I)	0.86	3.04	3.52	3.82	3.43	3.92	4.69
Bloomberg Barclays 10-Year Municipal Bond Index	1.27	3.77	4.59	4.44	4.01	4.22	4.93

GWMTX (Class N) Expense Ratio (Gross/Net)[3]: 0.78%/0.71%
GWMIX (Class I) Expense Ratio (Gross/Net)[3]: 0.46%/0.39%

The performance data shown represents past performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. The investment return and the principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. For performance information through the most recent month end, please call 800.835.3879 or visit our website at amgfunds.com. From time to time the advisor has waived fees or reimbursed expenses, which may have resulted in higher returns.

The **AMG GW&K Municipal Bond Fund** (Class N) returned 0.86% for the third quarter of 2020, compared with 1.27% for its benchmark, the Bloomberg Barclays 10-Year Municipal Bond Index. For the 12 months ended September 30, 2020, the Fund returned 3.52% versus 4.59% for the Index. Please note that this Fund has multiple share classes.

Market

The municipal bond market posted solid returns in the third quarter, extending a post-crisis rebound on the back of a robust technical environment. Over the first six weeks of the period, tax-exempt yields rallied to all-time lows across the entire curve. The major catalyst was a flood of money pouring into the market, driven by a combination of seasonally high reinvestment demand and attractive valuations versus taxable alternatives. Industry mutual funds took in $26 billion of net new cash, the highest quarterly inflows on record. Supply, on the other hand, was relatively modest. Headline volumes were actually well above average, but those numbers were inflated by a record jump in taxable issuance. Tax-exempt supply remained at more manageable levels. In addition, dealer inventories dropped to all-time lows, setting the stage for a supply/demand dynamic that favored sellers. Lower rated credits continued to outperform, benefiting from a better-than-expected outlook for state finances and a still heavy appetite for incremental yield. Over the second half of August and into September, investors turned more cautious amid a building forward calendar and uncertainty over federal relief aid, pushing rates up off their lows, but still down for the quarter.

In the broader markets, the backdrop was one of relative calm. The Federal Open Market Committee (FOMC) laid out a new policy framework to allow for inflation overshoots without corresponding hikes in rates. Member forecasts signaled that rates would remain on hold through the end of 2023. Meanwhile, the recovery continued at a solid clip, highlighted by upbeat results for the consumer, housing, and manufacturing. The labor market added jobs in all three months, bringing the unemployment rate down below 8% from a peak of nearly 15% in April. Sentiment around a so-called Phase 4 stimulus package waxed and waned, but an agreement ultimately proved out of reach as the quarter came to a close. Fears surfaced of a resurgence in COVID-19 cases and potential new shutdowns, particularly in Europe. And as we drew nearer to Election Day, concerns increased that a prolonged vote count could delay results and destabilize social order. Through it all, however, Treasury yields traded in a narrow range and finished the quarter essentially unchanged.

As we enter the final stretch of the year, the picture in the municipal bond market is still fairly bright. The yield curve, which had been stubbornly flat the last few years, has steepened back closer to historical averages, offering better return potential from the additional roll. Relative value ratios remain historically cheap, particularly at the 10-year spot, which finished the quarter well above 100%. While uncertainty surrounding the election looms, certain results could favor municipal bonds, including a Democratic sweep or any outcome that results in higher taxes, more aid to states, or a rethink on the SALT deduction and/or the tax-exempt advanced refunding ban. Even so, the technical picture that boosted returns in recent months is likely to become a headwind, with increased supply and heightened investor caution.

[1] Returns for periods less than one year are not annualized.

[2] Since the Fund's inception on June 30, 2009.

[3] The Fund's Investment Manager has contractually agreed, through May 1, 2021, to limit fund operating expenses. The net expense ratio reflects this limitation, while the gross expense ratiodoes not. Please refer to the Fund's Prospectus for additional information on the Fund's expenses.

AMG

Performance

GW&K's Municipal Bond Strategy underperformed the Bloomberg Barclays 10-Year Municipal Bond Index for the quarter. An overweight to shorter-than-benchmark securities benefited performance as the yield curve steepened. Our higher quality bias was the biggest negative as credit spreads tightened significantly, particularly for BBB-rated names.

Strategy

We continue to take a cautious approach in this environment in terms of both credit and duration. Our purchases have generally focused on high quality, solid state general obligation names as well as revenue bonds in essential service sectors such as education, toll roads, health care, and water and sewer. We also found some value in the airport sector where spreads remained relatively wide. Our approach here was conservative, concentrating on the largest, most critically important hubs in the nation's transportation network, which have strong cash cushions to deal with declines in passenger traffic. Expanded spreads also attracted us to several New York names where heavy supply and market saturation of in-state issuers created an opportunity. As the curve steepened toward the end of the quarter, we looked to accumulate bonds in the 7–10 year range where the roll characteristics were markedly improved. In many cases, the value of the roll exceeded the absolute purchase yield, a reminder of the importance of curve analysis. Moving forward, we are fully aware of the potential volatility ahead with the upcoming election, ongoing credit deterioration, and weakening technicals. As such, we have maintained our historically short duration and allocation to the very front end of the curve, providing necessary flexibility should a market shift warrant action.

The views expressed represent the opinions of GW&K Investment Management as of September 30, 2020, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Ten Holdings (%)[4] (as of 09/30/20)

Holding	Coupon (%)	Maturity	% of Net Assets
State of Texas Fixed	4.00	Aug 2021	4.70
State of Maryland Fixed	5.00	Aug 2025	2.38
New York State Dormitory Authority Fixed	5.00	Mar 2021	2.14
Wisconsin Department of Transportation Fixed	5.00	Jul 2029	2.10
State of North Carolina Fixed	5.00	May 2028	1.57
Iowa Finance Authority Fixed	5.00	Aug 2030	1.54
State Of California Fixed	5.00	Nov 2030	1.27
State of Maryland Department of Transportation Fixed	5.00	Sep 2029	1.26
State of Maryland Department of Transportation Fixed	5.00	Oct 2028	1.25
Metropolitan Transportation Authority Fixed	5.00	Nov 2027	1.23
TOTAL %			19.44

Disclosure

Investors should carefully consider the fund's investment objectives, risks, charges, and expenses before investing. For this and other information, please call 800.835.3879 or download a free prospectus. Read it carefully before investing or sending money.

Past performance is no guarantee of future results.

A basis point refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% (0.0001), and is used to denote the percentage change in a financial instrument.

Issuers of bonds may not be able to meet interest or principal payments when the bonds come due.

The Fund is subject to the risks associated with investments in debt securities, such as default risk and fluctuations in the perception of the debtor's ability to pay its creditors.

Companies that are in similar businesses may be similarly affected by particular economic or market events; to the extent the Fund has substantial holdings within a particular sector, the risks associated with that sector increase

[4] Mention of a specific security should not be considered a recommendation to buy or a solicitation to sell that security. Holdings are subject to change.

Changing interest rates may adversely affect the value of an investment. An increase in interest rates typically causes the value of bonds and other fixed income securities to fall.

Factors unique to the municipal bond market may negatively affect the value in municipal bonds.

Market prices of investments held by the Fund may fall rapidly or unpredictably due to a variety of economic or political factors, market conditions, disasters or public health issues, or in response to events that affect particular industries or companies.

Investment income may be subject to certain state and local taxes and, depending on your tax status, the federal alternative minimum tax. Capital gains are not exempt from federal income tax.

The Bloomberg Barclays 10-Year Municipal Bond Index is the 10-Year (8–12) component of the Municipal Bond index. It is a rules-based, market-value-weighted index engineered for the tax-exempt bond market. The Index tracks general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds rated Baa3/BBB- or higher by at least two of the ratings agencies: Moody's, S&P®, Fitch.

Effective August 24, 2016, the Barclays indices were renamed Bloomberg Barclays indices.

Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank PLC (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

Unlike the Fund, the Index is unmanaged, is not available for investment, and does not incur expenses.

Any sectors, industries, or securities discussed should not be perceived as investment recommendations. Any securities discussed may no longer be held in the Fund's portfolio. It should not be assumed that any of the securities transactions discussed were or will prove to be profitable, or that the investment recommendations we make in the future will be profitable.

AMG Funds are distributed by AMG Distributors, Inc., member FINRA/SIPC.