AMG GW&K Small Cap Value Fund

COMMENTARY | ASSET CLASS | SMALL CAP

Class N | SKSEX   Class I | SKSIX   Class Z | SKSZX

GW&K INVESTMENT MANAGEMENT

Average Annual Returns (%)[1] (as of 06/30/21)

	Q2	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.
SKSEX (Class N)	2.79	22.73	65.00	8.98	11.69	11.20	11.73[2]
SKSIX (Class I)	2.85	22.81	65.29	9.17	—	—	8.61[3]
SKSZX (Class Z)	2.82	22.83	65.34	9.24	—	—	8.68[3]
Russell 2000® Value Index	4.56	26.69	73.28	10.27	13.62	10.85	—

SKSEX (Class N) Expense Ratio (Gross/Net)[4]: 1.18%/1.15%
SKSIX (Class I) Expense Ratio (Gross/Net)[4]: 0.98%/0.95%
SKSZX (Class Z) Expense Ratio (Gross/Net)[4]: 0.93%/0.90%

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 Small Cap Value Fund** (Class N) returned 2.79% in the second quarter of 2021, compared with a 4.56% return for its benchmark, the Russell 2000® Value Index. For the 12-month period ending June 30, 2021, the Fund returned 65.00% compared to a 73.28% return for its benchmark. Please note that this Fund has multiple share classes.

Have we peaked in the discussion about peaks? Sadly, we aren't talking about summiting mountains, as that would be far more interesting and energizing topic for the summer months. And everyone except your local HVAC business is hoping we have seen a peak in summer heat domes. Instead, we are referring to the peaks of such things as central bank accommodation, inflation, PMI readings, government fiscal support, consumer spending, housing demand, and cyclical growth. In the investment world, the argument about peaking economic indicators seems to be that we have reached the high end of all of these measurements. As a result, interest rates will remain at the current extraordinarily low levels and equity investors should trim their cyclical exposure and lean back into growth styles. Fast money investors seemed to have reached this conclusion in mid-May as the U.S. 10 year Treasury rate started to decline. Following this narrative, the tenor of the second quarter had two parts: ascension to the peak and the beginning of the descent. Overall, the Russell 2000® Small Cap Index returned 4.3% for the quarter, trailing the S&P 500® Index (+8.6%) as large cap stocks attempted to close the gap on year to date performance. The Russell 2000® Value lost its leadership in early June, peaked on June 9, and has since consolidated. It still outperformed in 2Q (+4.6%), while the Russell 2000® Growth (+3.9%) bottomed relative to the broader benchmark in May to subsequently regain its mojo.

The Fund's performance in the quarter was marred by the continuing influence of some of the meme stocks that have been highlighted in mainstream and investment focused media over the past six months. Particularly noteworthy was AMC Entertainment (AMC), which soared 455.1% in the quarter and accounted for 115 bps (or 25%) of the benchmark's positive return. This is still a business model facing both secular and cyclical challenges, yet the bubble inflated further as investors increasingly believed a greater fool would buy the stock from them at a higher price later. The pile on began as the fundamental news of earnings season subsided and the peak argument gained sponsorship. As a result, the leading sector in the benchmark this quarter was communication services (+53.2%), followed by energy (+20.1%) as the only two groups delivering double-digit returns. Real estate (+8.2%), consumer discretionary (+5.7%), information technology (+5.2%), and materials (+4.6%) were in the next group of top performers, reflecting a mix of cyclical and secular growth drivers for the quarter. Lagging sectors for the quarter included consumer staples (-2.6%), utilities (-1.0%), financials (-0.3%) and industrials (+1.5%) as stable growth and interest rate sensitive stocks were mixed. Factor results mostly worked against our high-quality bias. Non-earners outperformed (+9.6%), as did negative equity (+5.9%), high beta (+11.0%), and high debt (+13.3%).

[1] Returns for periods less than one year are not annualized.
[2] Since the inception of the Fund's Class N shares on April 23, 1987.
[3] Since the inception of the Fund's Class I and Z shares on February 24, 2017.
[4] The Fund's Investment Manager has contractually agreed, through at least May 1, 2022, to limit Fund operating expenses. The net expense ratio reflects this limitation, while the gross expense ratio does not. Please refer to the Fund's Prospectus for additional information on the Fund's expenses.

As mentioned above, relative performance for the Fund lagged the benchmark. The biggest single impact, again, was AMC, which cost us just over 118 bps, as the stock inflated to a market cap exceeding $25 billion. On a sector basis, our strategy had positive stock selection in both health care (+154 bps) and information technology (+17 bps). Among our health care holdings, we had three stocks that significantly outperformed the 3.7% return for the benchmark's health care sector. These included Apollo Medical Holdings (AMEH, +131.9%), Tenet Healthcare (THC, +28.8%), and Supernus Pharmaceuticals (SUPN, +17.6%). In information technology, Viavi (VIAV, +12.5%) was our strongest contributor, while other holdings in Software (AMSWA) and Semiconductors (SLAB) also outperformed. On the opposite side of the ledger, communication services (-88 bps), industrials (-60 bps) and consumer discretionary (-55 bps) each lagged the benchmark. For communications services, the letters A-M-C tell the whole story. In industrials, two industries drove most of the relative underperformance – Building Products (UFPI, AMWD, ROCK) and Airlines (ALGT, SKYW). Some of the weakness in industrials was offset by the performance of Lydall (LDL) which announced that it would be acquired by Unifrax and rose 79.3% during the quarter. In consumer discretionary, we had three holdings down double-digit percentages: Johnson Outdoors (JOUT, -15.2%), M.D.C. Holdings (MDC, -14.2%), and Patrick Industries (PATK, -13.8%). The financials and energy sectors also negatively impacted relative performance in the quarter. In financials, our banks holdings pulled back following strong first quarter performance and persistently low interest rates. In energy, a small underweight position and weakness in our energy equipment & services names (PUMP, SOI) drove the relative underperformance.

Trading activity for the quarter was moderate. We added three new stocks to the portfolio and sold five holdings. In real estate we added CareTrust (CTRE), a skilled nursing and senior living focused REIT which we believe is well-positioned for return to normal conditions in the industry. We also added STAG Industrial (STAG), an industrial REIT with a unique strategy focused on the acquisition and operation of single-tenant industrial properties. In consumer discretionary, we added Noodles & Co. (NDLS), a fast-casual restaurant with a new management team that has successfully been turning the company around; boosting same-store sales and margins. Our sells came from the industrials and consumer discretionary sectors. In industrials, we sold Gibraltar Industries (ROCK) and American Woodmark (AMWD), reducing our overweight position in building products. In consumer discretionary, we sold Johnson Outdoors (JOUT) following strong performance during the pandemic. We also sold Stoneridge (SRI) to reduce our exposure to auto components. Finally, we sold our position in Deckers (DECK), a long-term successful holding that has grown out of the small-cap category. We also added to four positions; two in information technology (AMSWA, POWI), one in industrials (FIX), and one in real estate (XHR).

With investors changing their interest from cyclical to growth and more speculative names by quarter end, we may logically be asked whether we believe the cyclical peak was achieved in the second quarter. In truth, we don't know, and more importantly it wouldn't likely change our portfolio approach. Whether the PMI levels, inflation, or central bank support have peaked is unclear, although we are obviously past the largest year-over-year improvements off the bottom of the pandemic. We still believe that the economy is in the earlier stages of a cyclical upturn. We do hold the view that inflation is probably a greater risk than a cyclical stall, given the fiscal and monetary support in the system today and the momentum the economy seems to have emerging from the pandemic. We will leave the peak argument to others and focus instead on the most likely outcomes over the next 12 months and more importantly the next three to five years. The economic rebound is likely to continue and broaden. This is especially true if the infrastructure package concocted in Washington passes and the coronavirus variants do not require widespread shutdowns. When investors press too hard into one side of the trade, we will look for long-term opportunities on the other—a recent example being the two secular growth companies we invested in during the first half of the just completed quarter. And when sentiment swings too far back, we will hopefully find opportunity there too. Balance, judgment, and patience are, we believe, more important to long-term returns than identifying second derivative changes in economic results. Our hope for all is that we stay safe, avoid heat domes, and find some outdoor peaks to enjoy this summer.

The views expressed represent the opinions of GW&K Investment Management, as of June 30, 2021, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Top Ten Holdings (%)[5] (as of 06/30/21)

Holding	% of Net Assets
Tenet Healthcare Corp	2.96
Apollo Medical Holdings Inc	2.73
Group 1 Automotive Inc	2.47
Central Garden & Pet Co	2.39
Gray Television Inc	2.38
Independent Realty Trust Inc	2.37
Piper Sandler Cos	2.37
Pacific Premier Bancorp Inc	2.31
Walker & Dunlop Inc	2.26
Boot Barn Holdings Inc	2.25
TOTAL %	24.49

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.

The Fund is subject to risks associated with investments in small-capitalization companies, such as erratic earnings patterns, competitive conditions, limited earnings history and a reliance on one or a limited number of products.

Companies that are in similar industry sectors 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.

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.

The Fund is subject to special risk considerations similar to those associated with the direct ownership of real estate. Real estate valuations may be subject to factors such as changing general and local economic, financial, competitive, and environmental conditions.

The Fund invests in value stocks, which may perform differently from the market as a whole and may be undervalued by the market for a long period of time.

The Russell 2000® Index is composed of the 2000 smallest stocks in the Russell 3000® Index and is widely regarded in the industry as the premier measure of small-cap stock performance.

The Russell 2000® Value Index is an unmanaged, market-value weighted, value-oriented index comprised of small stocks that have relatively low price-to-book ratios and lower forecasted growth values.

Unlike the Fund, indices are unmanaged, are not available for investment, and do 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.

[5] 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.