Q3 | 2019 AMG Managers Loomis Sayles Bond Fund

COMMENTARY | ASSET CLASS | FIXED INCOME

Class N | MGFIX Class I | MGBIX

Average Annual Returns (%)[1] (as of 09/30/19)

	QTD	YTD	1 yr	3 yr	5 yr	10 yr	Since Incpt.
MGFIX (Class N)	1.94	9.52	8.38	3.95	3.53	5.39	8.00[2]
MGBIX (Class I)	1.99	9.68	8.56	4.08	3.64	—	3.52[3]
Bloomberg Barclays U.S. Govt./Credit Bond Index	2.64	9.72	11.32	3.16	3.61	3.94	7.24[2]

MGFIX (Class N) Expense Ratio (Gross/Net): 0.70%/0.70%
MGBIX (Class I) Expense Ratio (Gross/Net): 0.50%/0.50%

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 Managers Loomis Sayles Bond Fund** (Class N) returned 1.94% in the third quarter of 2019, compared with the 2.64% return for its benchmark, the Bloomberg Barclays U.S. Government/Credit Bond Index. For the 12 months ending September 30, 2019, the Fund returned 8.38%, compared with 11.32% for the Index.

Performance Review

Our shorter-than-benchmark duration stance hurt excess performance as yields fell throughout the quarter. Investment grade credit, non-U.S. dollar, and high yield credit sectors were the main detractors. The allocation to investment grade credit limited performance for the quarter. On an absolute basis, performance in the sector had the greatest negative impact in the strategy. Exposure to securities issued by Enable Midstream Partner detracted the most from performance. Our exposure within non-U.S. dollar denominated issues lowered excess return in the sector. Our holdings denominated in the Canadian dollar and New Zealand dollar were the worst performers within the allocation. Our overweight exposure to high yield credit detracted from overall performance for the period. Enlink Midstream Partner and U.S. Steel reduced return in the sector. The exposure to convertibles generated positive return during the quarter. Throughout the period, banking, finance companies, and technology names modestly increased excess return with the securities issued by Bank of America, Booking Holdings CVT, and Istar having the best performance in this sector. Our allocation to equity positively impacted performance during the quarter. Select exposure to communications and consumer non-cyclical names moderately helped excess return with AT&T and Bristol-Myers Squibb having the best performance in this sector. On an absolute and excess basis, U.S. Treasuries positively contributed to performance as the sector generated the greatest returns within the strategy.

Investment Outlook

The fourth quarter of 2019 could be a challenging one for market participants. Markets may be volatile as investors search for clues about the health of the global economy, while most asset class valuations look fair to rich. However, it's not all doom and gloom. Despite the potential for choppy trade, we believe fixed income and equity markets could generate mid-single-digit returns over the next 12 months.

MACRO DRIVERS: Though economic growth continues to slow around the world, we see limited signs of an impending recession. Central banks appear willing to support the global economy, reducing one of many risks on the horizon.

Global economic data may continue to indicate weakness near term. However, we expect the manufacturing-driven slowdown to reverse course later in the fourth quarter without a recession. The U.S. Federal Reserve (Fed) will likely cut its key policy rate in October and December of 2019. Elsewhere, the European Central Bank and Bank of Japan have indicated signs of continued easing until growth and inflation approach mandated targets. Global growth consensus forecasts have stabilized across developed and emerging market economies. Absolute levels of real GDP still look decent for this year and next. We still expect labor market strength and rising wages. However, these conditions may not result in substantially higher consumer price inflation as they have in past expansions. We fear manufacturing sector weakness could bleed through to service-oriented sectors, leading to increased job loss. For now, we see limited indications of such an outcome.

CREDIT: We see excess return potential as long as financial conditions can hold steady. Strong demand for credit should help credit spreads remain stable.

Global growth remains moderate and 2019 corporate earnings are still likely to rise in the low-single-digit range. Changes in the economic outlook will likely determine the trading range for credit spreads. Deterioration could push spreads wider, while improvement could move spreads tighter. The global thirst for yield is supporting a strong bid for credit, which should keep spreads relatively stable. We believe consensus estimates for 2020 corporate earnings may be too high, especially if the manufacturing recovery develops slower than we anticipate, or does not materialize at all. The credit sector's yield and excess return potential hinge on corporate profit and global economic growth. As long as these metrics continue to expand, credit investors should be able to harvest some yield and

[1] Returns for periods less than one year are not annualized.
[2] Since the inception of the Fund's Class N shares on June 1,1984.
[3] Since the inception of the Fund's Class I shares on April 1, 2013.

modest excess returns. U.S. high-grade corporate credit quality continues to trend positive across most industries. We think downgrade concerns about BBB-rated credits in the next economic downturn are valid, but perhaps a bit overblown.

GOVERNMENTS & CURRENCIES: Central banks around the globe are cutting interest rates in response to weaker economic growth. Dollar strength seems likely to persist in this environment. A global economic slowdown and accommodative central bank action supported a global bond rally.

After facing pressure all year, global interest rates spiked in September as global PMI data stabilized. We see a pickup in economic activity in the months ahead, but not quite yet. When it does materialize, more positive economic data should help the global economy out of this soft patch of growth. That said, we do not anticipate a boom or inflationary impulse. Inflation pressure in the U.S. remains nonthreatening and the global growth outlook still appears soft, supporting our view that the Fed will cut interest rates twice more by year end. Market-based expectations for the federal funds rate suggest only one more 25 bp cut in 2019 and two additional cuts in 2020. If economic data picks up like we expect, the economy might not need that much support from the Fed in 2020. Emerging market debt may prove to be an attractive opportunity for investors looking for higher yield potential. However, the U.S. dollar is likely to stay strong.

EQUITIES: Forward valuations look a bit elevated at the index level, underscoring the importance of security selection. Earnings may have to do the heavy lifting.

Price-to-earnings multiples expanded from very low levels this year. We see little opportunity for further expansion, even with a more accommodating Fed and long-term yields near multi-year lows across the globe. The outlook for corporate earnings and global growth remain critical factors helping to drive equity market performance. Downside risks include uncontrolled trade escalation between the U.S. and China and a slower-than-anticipated uptick in economic activity. Both could impact earnings and equity markets negatively. U.S. trade policy remains a source of uncertainty for corporate decision-makers and investors. Clarity on trade negotiations with China and some sort of deal, even if small, would introduce potential upside risk to global equity markets. We have seen a weak trend in 2020 earnings estimates all year. The U.S. has held up relatively better than global peers, which is one reason we prefer U.S. equities over global equities. We expect 2020 earnings growth in the mid-single-digit range worldwide, based on our fairly sanguine economic outlook. Japan and emerging Asia may continue to show relative weakness.

POTENTIAL RISKS: Tariffs and trade conflict between the U.S. and China cast a cloud over an otherwise solid economic outlook. Outright recession risk appears low, but we need to see a cyclical pickup soon. We are skating on thinner ice as the global economy slows.

Consensus estimates for domestic growth could still head lower, but we believe the probability of a U.S. recession is low. We expect U.S. and global economic data to begin improving. U.S.-China trade negotiations remain a major downside risk to our growth outlook. Trade talks are scheduled for early October. Despite economic weakness in both the U.S. and China, neither side appears ready to give in. We are watching geopolitical conflicts with Iran and other nations. If geopolitical developments worsen, investors may demand compensation for the added risk, driving risk premiums higher. Credit spreads and equity markets would likely stumble. Consensus earnings growth estimates for 2019 have been revised down into the low-single-digit range for the U.S., Europe, and emerging markets. Japan could see outright declines in corporate profitability this year. We believe earnings growth needs to improve to support equity performance through 2020. An uptick in high-frequency economic indicators could go a long way to support investor sentiment and risk assets. For now, investor sentiment still reflects end-of-cycle fears, which may be overstated. We believe the expansion should continue through 2020.

The views expressed represent the opinions of Loomis, Sayles & Company, L.P., as of September 30, 2019, are not intended as a forecast or guarantee of future results, and are subject to change without notice.

Top Ten Holdings (%)[4] (as of 09/30/19)

Holding	Coupon (%)	Maturity	% of Net Assets
Federal Home Loan Bank Discount Notes Zero Coupon	—	Nov 2019	8.10
United States Treasury Bill Zero Coupon	—	Nov 2019	6.47
United States Treasury Bill Zero Coupon	—	Feb 2020	4.77
Verizon Communications Inc Fixed	3.50	Nov 2024	2.39
Ford Motor Credit Co LLC Fixed	4.39	Jan 2026	2.27
Mexican Bonos Fixed	10.00	Dec 2024	2.17
United States Treasury Note/Bond Fixed	3.00	Aug 2048	2.05
United States Treasury Bill Zero Coupon	—	Jan 2020	2.01
Lloyds Banking Group PLC Fixed	4.58	Dec 2025	1.79
American Airlines 2016-2 Class B Trust Fixed 144A	4.38	Jun 2024	1.62
TOTAL %			33.64

[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.

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 listed returns and yields on the Fund are net of expenses and the returns and yields on the indices exclude expenses. Current performance of the Fund may be lower or higher than the performance quoted.

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.

High-yield bonds (also known as "junk bonds") are subject to additional risks such as the risk of default.

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.

To the extent that the Fund invests in asset-backed or mortgage-backed securities, its exposure to prepayment and extension risks may be greater than investments in other fixed income securities.

The Fund may invest in derivatives such as options and futures; the complexity and rapidly changing structure of derivatives markets may increase the possibility of market losses.

Investments in international securities are subject to certain risks of overseas investing including currency fluctuations and changes in political and economic conditions, which could result in significant market fluctuations. These risks are magnified in emerging markets.

The Bloomberg Barclays U.S. Government/Credit Bond Index is an index of investment-grade government and corporate bonds with a maturity rate of more than one year.

Unlike the Fund, the 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.

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