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Co-President

Investment Professional Since 1987
Joined GW&K 1996



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ABOUT GW&K

- **Founded 1974**
- **Affiliate of AMG since 2008**
- **17 Actively Managed Strategies**
- **\$33 Billion Under Management**
- **Senior Management Continuity**
Average 22 years with firm

Assets as of 9/30/16

Q&A WITH TOM POWERS & BILL ROBERTS

What would you say were some of the firm’s biggest achievements in 2016?

Mr. Powers: 2016 was another steady growth year for us, putting our total assets under management at \$33 billion, up from \$26 billion a year ago. We executed on our core business - serving institutions, advisors, RIAs, family offices and individuals - and also continued to focus on how we could better serve our clients and meet their needs. To that end, we launched a Global Small Cap UCITS Fund, building on our well-established track record in domestic small cap equities and continuing to further our international effort. It was a natural progression for us after developing an International Small Cap Strategy in 2015.

Our efforts in building our presence in the institutional channel, which started in earnest in 2011, continue to bear fruit. We have been really pleased with the traction we have achieved in the consultant community and in winning mandates across a variety of client types. This year we attracted \$1.5 billion in institutional assets.

2016 has been a very interesting year politically, geopolitically in the markets. What would you say was the biggest surprise of 2016 from an investment perspective?

Mr. Powers: The outcome of the 2016 presidential election really stunned the market, and it released some degree of volatility. The equity market is clearly anticipating a very pro-business environment, something we see with the promise of lower corporate taxes and less regulation, a surprise for anyone who had been prepared for the inverse where they felt that taxes were going to go up, and there could be increased government oversight. Simultaneously, the bond market’s selling off nearly as rapidly as the equity market has advanced has been a surprise. We think some level of volatility can be a beneficial occurrence and the markets overall remain healthy.

Since its founding in 1974, GW&K has been best known as a municipal bond manager. How is GW&K different today than it was five or 10 years ago?

Mr. Powers: We are still considered one of the top municipal bond managers in the country today but we have built upon that foundation quite a bit by adding investment talent and growing our capabilities in the equity and taxable bond space. We have developed a strong reputation in the small cap asset class thanks to the highly seasoned equity team we have in place.

The most dramatic growth we have seen has been in the institutional channel, and that not only is in direct response to having a successful roster of investment strategies, but a result of our institutional team focusing on building thoughtful relationships with consultants and plan sponsors. Today we’re at \$7.5 billion in institutional assets, which is just over 20% of the firm’s total assets.

So while we don’t ignore the fact that we’re a top-caliber municipal bond manager, we really have spent time, energy, and resources developing and acquiring the right people to support our other business channels and strategies.

Has that been a difficult process, attracting the right talent?

Mr. Roberts: Not at all. We have developed a unique culture here that values intellectual

curiosity, something that we're intent on encouraging and preserving. This firm is all about people. We are a \$33 billion shop, and while there's some scale to that, we still operate like a smaller shop. Our organizational structure is very flat and that's by design. From our CEO, to the management committee, to our portfolio managers, everyone is accessible at a personal and professional level. Attracting the right talent to the firm to support our efforts has been relatively easy. The more challenging endeavor is finding the right people to join us. There's a well-qualified, well vetted pool of candidates and we are thoughtful in our process by which we invite them to join us here at GW&K.

How do you encourage the kind of collegial culture that you have today? How did that happen, and how do you keep it that way?

Mr. Roberts: I think the tone starts at the top with our CEO, Harold Kotler, on down. And although it may sound cliché, it's a matter of mutual regard and respect among every professional. Our organization encourages open communication at all levels and values the ideas and inputs from all employees. So, although the fixed income side dominates our assets under management, our equity team is on par with the fixed income groups and everyone has an equal voice.

In addition, if you look at the tenure of our employees, our investment professionals average over ten years with the firm, and senior management averages over 20 years. That says a lot about how enjoyable a place this is to work.

How do the two of you divide your responsibilities as co-presidents?

Mr. Powers: Anything client-facing rolls up to me including client service, marketing, and sales. Bill has oversight for compliance, risk management, and back office functions such as information technology and operations. We have formed a great partnership over the years.

Mr. Roberts: Tom and I have been working together now since 1996 and our senior management averages 22 years with the firm, so we think that really speaks to the respect and synergy that exists here.

What, in particular, differentiates the firm from other asset management firms out there? Why do people do business with you as opposed to other firms?

Mr. Roberts: It's the people, process, and the systems that deliver reliable, repeatable results. GW&K has preserved an entrepreneurial culture that is centered on our goal of

providing quality investment management services and developing strong relationships with our clients. We promote a team structure and hire professionals who will support and enhance our client-oriented approach. So, it goes back to the point that we really put an emphasis on hiring the right people for the right jobs and delivering consistent results.

How do you communicate that differentiation to prospects, consultants, and clients?

Mr. Powers: We recognize that a critical part of our success is the value we place on developing close client relationships. We believe in teamwork and take a collaborative approach to delivering personalized client service. It's a matter of sticking to our core principles and delivering consistent results over a period of time.

How would you describe your client base in the institutional space? Are there particular areas that you're focusing on?

Mr. Powers: Given the relative newness and the concerted effort that we have put into our institutional space over the last few years, it's a well-diversified group of clients; everything from endowments and foundations to corporate and public defined benefit plans, 401k plans, and foreign corporate plans. We continue to see demand from these client types that can benefit from our investment solutions and brand of service.

GW&K is an AMG affiliate. How has that relationship benefited the firm, and how has that relationship changed over the years?

Mr. Roberts: Our partnership with AMG, which began in 2008, has been extremely beneficial. They are there with the knowledge of what works, sharing the best practices and ideas of a number of other affiliates, and that can be very helpful in terms of when you want to launch a new product or need industry perspective. They are also very helpful on the regulatory front and have supported us in those efforts as well. So it's been a very creative and rewarding relationship.

Mr. Powers: To add to that, AMG is very powerful globally. We've been able to leverage their global distribution team for our institutional channel and we continue to have success overseas.

We also sub-advise seven mutual funds distributed through the AMG Funds family, which complements our core investment offerings. And we believe that syncs nicely with what we'd like to do in the institutional 401k space, as we want to be able to offer 40 Act funds as an appropriate vehicle as we continue to grow our institutional assets.

Are there particular countries that AMG is focusing on for distribution of your product or expertise?

Mr. Powers: AMG Global Distribution has been a powerful business partner. They have personnel on every continent, from Europe and Asia to the Middle East and Australia. So, we leverage their expertise and have had some far-reaching geographic opportunities. With their help, over the last few years we've added a number of international clients which has been really exciting.

Small-cap strategies represent \$4 billion of your assets. To what do you attribute your success with this particular asset class?

Mr. Powers: Again, it comes back to the people. We have a seasoned investment team that has experience over several market cycles. Dan Miller, who is our Director of Equities, is an incredibly strong portfolio manager and leader. It's a true team approach that incorporates a lot of discernment and conversation that evolves over time. Portfolio managers lean on the research analysts and the research analysts lean on their associates and it all flows up and down in a very natural process.

Our focus is on bottom-up fundamental research. Experienced, tenured, high-quality management – these are not only some of the most important attributes we seek out for the companies we invest in, but it also describes our small cap team. Successfully identifying solid management teams who have the best interests of their shareholders in mind is a direct reflection of our long-term research and investing history in the small cap arena.

What kinds of investment and money flow trends have you seen, and how have you positioned yourselves to leverage these trends?

Mr. Powers: We continue to see steady flows into our municipal bond strategies as it's a natural place for any individual investor who is searching for yield. With our broad distribution network in the advisory channel and partnerships with all of the large sponsor firms, we have been well positioned to be a recipient of flows into municipal bonds. The same would hold true for our taxable bond strategies, although they do not have tax-free status, so it is a little more challenging. We have also seen steady flows into our dividend-oriented equity strategy, again driven by investors' thirst for yield.

There also continues to be interest in our suite of small cap strategies. We recognize that this is an area that is capacity constrained, so we have built out our offerings in this asset class in a natural progression to satisfy the demand we were seeing in the institutional marketplace. We started with a

small cap core strategy and developed out a group of strategies in a logical way, moving into small/mid cap, small cap growth, small cap value, international, and now global. We continue to recognize investor demand and the opportunities that we have with small cap strategies.

How do you feel about investment performance across the board over the last year? Are you relatively pleased?

Mr. Powers: We are pleased with our performance and strategic positioning. All of our strategies have a long-standing philosophy of in-depth fundamental research focusing on quality and investing for the long term. Market environments with a preference for lower quality can prove challenging, but our goal will always be to seek out the best risk/return opportunities for all of our clients.

A significant percentage of GW&K's AUM are muni bonds. How, if at all, do you anticipate rising interest rates are going to impact the firm's taxable bond portfolios? Do you think there's something of a seesaw there between the two asset classes?

Mr. Roberts: Rising interest rates suggest an expansive economy, so whether it is municipal bonds or taxable bonds, we believe it's ultimately good for investors as most return on the bond is income-on-income.

We maintain an active investment process and our disciplined approach of reacting to interest rates provides advantages. Though the optics of it may hurt in the near term, over the longer term, rising rates are a good thing. It's when rates go down and stay down that it's really troubling.

Mr. Powers: Our responsibility as a firm, whether it's municipals or taxables, is communicating to our advisors and clients what a rising interest-rate environment really means to them and that, while it may hurt today, it's good for them in the long run.

Having been around since 1974, GW&K has weathered many challenging environments, so we are prepared for that conversation and expect it over the next several quarters or years.

These days there are all kinds of risk – operational risk and investment risk – to name a few. How are you addressing these types of risk?

Mr. Roberts: Risk management has always been a high priority at this firm. We have built a strong infrastructure to manage risk on many levels and continually promote a risk-averse mindset among our employees. Our commitment to continually enriching our technology is an important factor in

helping us manage risk across departments.

As an affiliate of AMG, we also have the benefit of leveraging their legal and compliance expertise to keep up with industry best practices. They assess our internal controls and overall compliance programs annually which is a beneficial extra layer of oversight.

In addition, we are adding to our senior legal and compliance resources at the start of 2017 with the newly created position of general counsel. As GW&K's business reach expands beyond the U.S. and we grow our roster of strategies and vehicle types, and service a broad mix of client types, we think bringing this legal expertise in house will be beneficial to us and our clients.

Cyber security has become a focal point this year. How are you safeguarding your firm?

Mr. Roberts: Protecting our clients' information is one of our top concerns. Cyber threats continue to evolve and present real additional challenges for financial services firms. We have various technical, administrative, and physical defenses in place to protect information and information systems from unauthorized access or destruction. We continually assess the effectiveness of our cyber security protections as part of our thorough compliance reviews.

What are you hearing from clients these days?

Mr. Powers: Concerns regarding the new administration and rising interest rates are two topics that have naturally come up. We understand that this environment is volatile and we are taking the same care that we always give our clients,

understanding that accessibility and a willingness to listen can be just as important as investment acumen. This is a moment in time. It's not forever, and we will continue to restate what our philosophy, process and expectations are.

Do you anticipate adding staff next year?

Mr. Powers: Over the last couple of years we have made a conscience effort to expand the depth of our equity and taxable bond teams. We may selectively add to support staff, but we do not have a strategic expansion planned for 2017.

Mr. Roberts: As Tom mentioned, we have made a number of key additions to our investment teams over the last few years including two research analysts on the equity side and a portfolio manager for taxable fixed income. So we have added to staff as demand has called for it. Along that continuum, our adding a general counsel is in direct response to our growth and the opportunities that we see ahead.

What's next for GW&K in 2017?

Mr. Powers: We will continue to focus on expanding our reach in the institutional arena. We believe a wide range of clients globally can benefit from our diversified suite of investment strategies as well as our strong commitment to service and accessibility. We continue to market our domestic and international small and small/mid cap strategies, as well as our taxable fixed income strategies, and we expect to add new funds and vehicle types as we grow. So we're well positioned and very excited for our prospects in the new year.

Disclosures

This represents the views and opinions of GW&K Investment Management and does not constitute investment advice, nor should it be considered predictive of any future market performance.