BNY MELLON

BNY MELLON GLOBAL OPPORTUNISTIC BOND FUND

INVESTMENT MANAGER

MELLON

Mellon is a global multi-specialist investment manager dedicated to serving our clients with a full spectrum of research-driven solutions. With roots dating back to the 1800s, Mellon has been innovating across asset classes for generations and has the combined scale and capabilities to offer clients a broad range of single and multi-asset strategies. Mellon was formed on 31 January 2018, through the merger of The Boston Company and Standish into Mellon Capital. Effective 2 January 2019, the combined firm was renamed Mellon Investments Corporation.

PERFORMANCE AIM

The Fund aims to deliver cash 3 month USD LIBOR + 4% p.a. over 5 years before fees. However, a positive return is not guaranteed and a capital loss may occur.

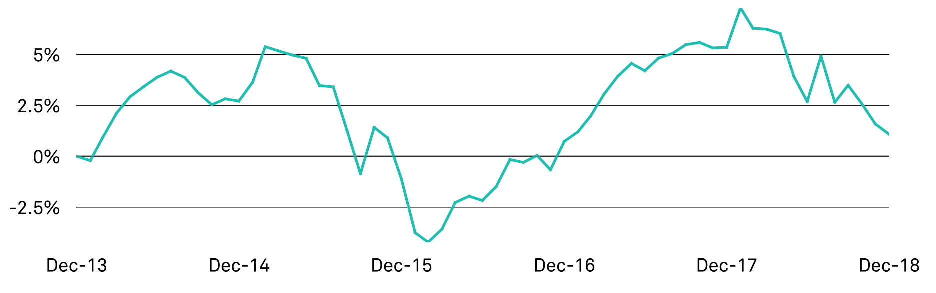
PERFORMANCE NOTE

Past performance is not a guide to future performance. The value of investments can fall. Investors may not get back the amount invested. Income from investments may vary and is not guaranteed.

QUARTERLY HIGHLIGHTS

- Performance: The Fund generated a negative return over the quarter, net of fees.
- Activity: Ex-ante tracking error increased during the quarter with emerging market spreads the largest broad risk category, followed by foreign currency and credit spreads.
- Outlook & Strategy: Global economic growth is expected to slow modestly as the US Federal Reserve (Fed) removes financial accommodation, but multiple political risks cloud the economic landscape.

5 YEAR CUMULATIVE PERFORMANCE (%)



PERFORMANCE SUMMARY (%)

					Annualised		
	1M	3M	YTD	1YR	2YR	3YR	5YR
USD W (Acc.)	-0.50	-2.33	-4.05	-4.05	0.18	0.73	0.22

	2014	2015	2016	2017	2018
Fund	2.71	-3.72	1.86	4.59	-4.05

Source: Lipper as at 31 December 2018. Fund performance USD W (Acc.) calculated as total return, based on net asset value, including charges, but excluding initial charge, income reinvested gross of tax, expressed in share class currency. The impact of the initial charge, which may be up to 5%, can be material on the performance of your investment. Performance figures including the initial charge are available upon request.

Performance data covering periods prior to share class launch include synthetic returns. Synthetic results do not represent actual investment returns nor costs and are not a reliable indicator of future performance. Performance data covering the period since share class launch is a record of actual returns achieved. Performance data for USD W (Acc.) is derived from USD C (Acc.) before 01/11/2017, adjusted to reflect the annual management charge of the USD W (Acc.) share class.

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PERFORMANCE COMMENTARY

Developed fixed income markets posted modest gains overall. The Bloomberg Barclays US Aggregate Index, the Bloomberg Barclays Global Aggregate Hedged Index and the Unhedged Index all rose moderately. The US dollar rose slightly while commodities declined 13.0%, as measured by the Thomson Reuters Core Commodity CRB Index, and oil prices fell dramatically. Meanwhile, 10-year US Treasury yields closed 60 basis points lower over the quarter at year end and the lowest yield since early February.

THE US DOLLAR ROSE SLIGHTLY WHILE COMMODITIES DECLINED SHARPLY AND OIL PRICES FELL DRAMATICALLY

In the US, final third-quarter GDP was revised down. The Fed raised interest rates at their December meeting. Fed Chair Jerome Powell struck a dovish tone at the most recent meeting, revising down next year's growth forecasts and triggering a selloff in US equity markets. Unemployment ended the period at 3.7%, the lowest level in nearly 50 years, and consumer confidence was consistently strong. Meanwhile, the US dollar rose slightly against a basket of currencies.

In the UK, a fast approaching Brexit deadline sent the manufacturing purchasing managers' index (PMI) above expectations and halted growth in the services sector in anticipation of a potential no-deal scenario. So far, Prime Minister Theresa May has been unable to pass agreeable terms through parliament. Inflation was lower than expected, due primarily to falling oil prices. The European Central Bank (ECB) officially ended its bond-buying stimulus programme. Despite somewhat muted headline data, ECB President Mario Draghi provided a positive outlook. Meanwhile, the Bank of Japan (BoJ) cut its inflation and economic growth forecasts, citing protectionist trade policies as one of the headwinds.

Despite a brief reprieve in the wake of the G20 summit, emerging markets declined overall. China's official manufacturing PMI contracted, ending the period below expectations at 49.4 in December, the first reading below 50.0 (neutral) in almost two years. Although still positive, US dollar strength also eased. In Brazil, far-right candidate Jair Bolsonaro was elected president with an overwhelming majority of the vote, sparking an impressive rally in the market as his administration targets much needed pension reform and advocates privatisations. Meanwhile, oil prices continued to weaken, despite OPEC's decision to cut production come January.

ACTIVITY REVIEW

The Fund is presently positioned with duration of 0.71 years versus 2.23 years duration at the end of the previous quarter. We nevertheless find some value in certain peripheral European government bond issuers (notably Spain and Italy).

WE DECREASED DURATION AND SLIGHTLY REDUCED OUR ALLOCATION TO INVESTMENT GRADE AND HIGH YIELD CREDIT

The Fund maintains allocations to investment grade and high yield corporate bonds, focusing on 'story credits' where we believe we can generate alpha rather than simply targeting credit market beta. The Fund began the quarter with 20.72% weight to investment grade and high yield credit, reducing this marginally to 17.13% by 31 December (investment grade credit 15.97% and high yield credit 1.16%).

The Fund's allocation to emerging markets stood at 20.27% at the end of the quarter, reduced somewhat from the previous quarter end when the Fund held around 24% in hard and local currency borrowers. Local currency exposure was reduced in the quarter and now comprises minor exposures to Argentine and Chilean issuers.

INVESTMENT STRATEGY AND OUTLOOK

Global economic growth is expected to slow modestly as the Fed removes financial accommodation, but multiple political risks cloud the economic landscape. Among others, a divided US government reduces the chance of legislation and will likely worsen the trade dispute, there are distinct threats to European cohesion, and extreme left-wing and right-wing politicians have now taken power in Mexico and Brazil respectively.

THE DOLLAR APPEARS EXPENSIVE COMPARED TO OTHER DEVELOPED MARKET CURRENCIES AND WE LOOK TO MAINTAIN SHORT DOLLAR EXPOSURE

Nevertheless, the current level of developed market economic activity is above potential and cost pressures are building. As inflation overshoots goal, the Fed will tighten modestly more and be more willing to tolerate volatility than currently thought by most investors. Interest rate volatility is low but will likely rise. Other developed market central banks will move, albeit slowly, to renormalise monetary policy.

Pressures on resources in developed market economies make their sovereign yields expensive. Break-evens offer value and provide inexpensive protection to upside surprises to inflation and lead us to be short to neutral duration in core developed market sovereign securities and to maintain modest exposure to break-evens.

Chinese officials are likely to meet their goal for economic growth (at the cost of slowing reforms and worsening the national balance sheet), supporting commodity prices and other emerging market economies. We believe emerging markets local currency and dollar debt offer attractive carry, but market and political uncertainties are elevated. We continue with the overweight in emerging market assets but will position more defensively over time.

In our view the dollar appears expensive against other developed and emerging market currencies and we look to maintain short dollar exposure, where appropriate, through option strategies given increased probability of tail risks.

We believe investment grade corporate spreads are fair, but fundamentals are likely to soften and while maintaining modest credit exposure, we continue to step up the quality of the holdings. Valuations of securitised products generally appear fair to rich, leading us to favour asset-backed securities.

With much of the fixed income universe looking fair to rich we think it is worthwhile continuing to explore option strategies with minimal cost to keep portfolios sufficiently convex and take idiosyncratic opportunities to reduce risk.

CREDIT QUALITY BREAKDOWN (%)

	Fund
AAA	40.4
AA	9.7
A	17.9
BBB	24.0
BB	1.8
B	6.1
C	0.2
Others	-0.1

CURRENCY BREAKDOWN (%)

	Fund
(after hedging)	
US Dollar	91.2
Norwegian Krone	4.5
Czech Koruna	3.3
Japanese Yen	2.7
Australian Dollar	2.4
Swedish Krona	2.1
Indonesian Rupiah	1.2
Singapore Dollar	1.1
Chilean Peso	1.0
Sterling	0.8
Others	-10.3

Source: BNY Mellon Investment Management EMEA Limited

MATURITY DISTRIBUTION (%)

Years	Fund
0-5 yrs	52.7
5-10 yrs	34.1
10-15 yrs	3.7
15-20 yrs	0.8
20-25 yrs	0.2
25-30 yrs	8.0
30+ yrs	0.5

REGIONAL BOND ALLOCATION (%)

	Fund
United States	50.0
Japan	9.9
Germany	4.5
New Zealand	4.3
Supranational	3.3
Argentina	3.0
United Kingdom	1.8
Spain	1.7
Qatar	1.5
Canada	1.5
Kazakhstan	1.2
Others	17.3

TOP 10 HOLDINGS (%)

	Fund
US TREASURY FRN 2.523456% 01/01/2019	14.1
JAPAN GOVT CPI LINKED 0.1% 03/10/2027	7.8
US TREASURY FRN 2.480456% 01/01/2019	6.6
US TREASURY N/B 2.75% 11/30/2020	5.7
NEW ZEALAND GVT ILB 2% 09/20/2025	4.7
DEUTSCHLAND I/L BOND 0.1% 04/15/2026	3.1
GENERAL ELECTRIC CO 5% 01/21/2021	1.8
US TREASURY N/B 3.375% 11/15/2048	1.7
STATE OF QATAR 5.103% 04/23/2048	1.6
BANQUE OUEST AFRICAINE D 5.5% 05/06/2021	1.4

PORTFOLIO CHARACTERISTICS

	Fund
Duration (in years)	0.7
Yield to Worst (%)	3.7
Average maturity (in years)	6.2
Average quality	A
Average Coupon (%)	3.2
Current yield (%)	3.3

KEY RISKS ASSOCIATED WITH THIS FUND

- There is no guarantee that the Fund will achieve its objectives.
- This Fund invests in international markets which means it is exposed to changes in currency rates which could affect the value of the Fund.
- Derivatives are highly sensitive to changes in the value of the asset from which their value is derived. A small movement in the value of the underlying asset can cause a large movement in the value of the derivative. This can increase the sizes of losses and gains, causing the value of your investment to fluctuate. When using derivatives, the Fund can lose significantly more than the amount it has invested in derivatives.
- Investments in bonds/money market securities are affected by interest rates and inflation trends which may negatively affect the value of the Fund.
- Bonds with a low credit rating or unrated bonds have a greater risk of default. These investments may negatively affect the value of the Fund.
- The issuer of a security held by the Fund may not pay income or repay capital to the Fund when due.
- Emerging Markets have additional risks due to less-developed market practices.
- The Fund takes its charges from the capital of the Fund. Investors should be aware that this has the effect of lowering the capital value of your investment and limiting the potential for future capital growth. On redemption, you may not receive back the full amount you initially invested.
- The insolvency of any institutions providing services such as custody of assets or acting as a counterparty to derivatives or other contractual arrangements, may expose the Fund to financial loss.
- Certain share classes are denominated in a different currency from the base currency (i.e. the reporting currency) of the Fund. Changes in the exchange rate between the shareclass currency and the base currency may affect the value of your investment.
- This share class uses techniques to try to reduce the effects of changes in the exchange rate between the share class currency and the base currency of the Fund. These techniques may not eliminate all currency risk.
- A complete description of risk factors is set out in the Prospectus in the section entitled "Risk Factors”.

INVESTMENT OBJECTIVE

To deliver positive absolute returns in all market conditions by investing primarily in a globally diversified, multi-sector portfolio of debt, debt-related securities and in financial derivative instruments relating to such securities and instruments.

GENERAL INFORMATION

Total net assets (million)	$ 26.07
Lipper sector	Lipper Global - Bond Global
Fund type	ICVC
Fund domicile	Ireland
Fund manager	Dedicated Team
Base currency	USD
Currencies available	EUR, USD, GBP, CHF
Fund launch	27 Oct 2010

DEALING

09:00 to 17:00 each business day
Valuation point: 12:00 Dublin time

USD W (ACC.) SHARE CLASS DETAILS

Inception date	01 Nov 2017
Min. initial investment	$ 15,000,000
Ongoing costs	0.65%
Annual mgmt charge	0.50%
Max. initial charge	5.00%
ISIN	IE00BDB5RK34
Registered for sale in:	AT, BE, DK, DE, FR, FI, GG, IE, IT, JE, LU, NL, NO, PT, ES, SE, CH, GB

Source: BNY Mellon Investment Management EMEA Limited
Any views and opinions are those of the investment manager, unless otherwise noted.

IMPORTANT INFORMATION

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