BNY MELLON

BNY MELLON LONG-TERM GLOBAL EQUITY FUND

INVESTMENT MANAGER

WALTER SCOTT
SINCE · 1983

Walter Scott & Partners Limited: A classical, fundamental and long-term global equity investment management firm based in Edinburgh, Scotland.

FUND RATINGS

MORNINGSTAR ★★★★

 Ratings are collected on the first business day of the month.

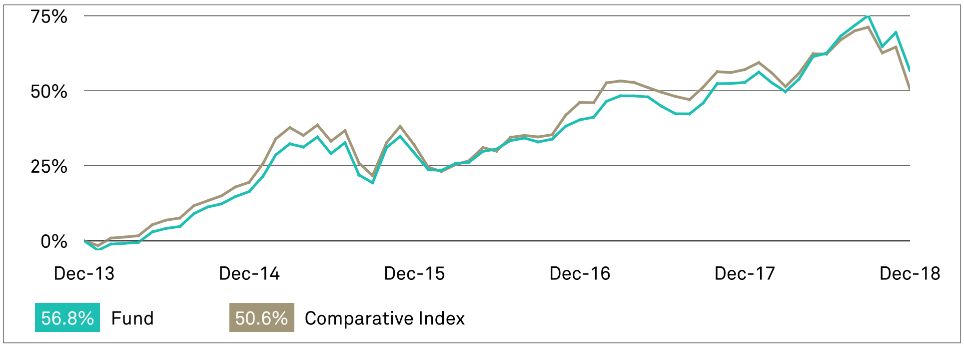
PERFORMANCE NOTE

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: Integral to the investment strategy is a long-term outlook and 'buy and hold' approach, so activity is not a prominent feature. One holding was bought during the quarter.
- Outlook & Strategy: With a focus on company fundamentals, our approach does not change through the different phases of market and economic cycles.

5 YEAR CUMULATIVE PERFORMANCE (%)



PERFORMANCE SUMMARY (%)

					Annualised		
	1M	3M	YTD	1YR	2YR	3YR	5YR
Euro W (Acc.)	-7.46	-10.44	2.63	2.63	5.72	6.64	9.41
Comparative Index	-8.48	-12.03	-4.11	-4.11	1.54	4.51	8.53
Sector	-7.34	-11.57	-7.69	-7.69	-0.30	1.92	5.30
No. of funds in sector	1,353	1,322	1,197	1,197	1,060	941	716
Quartile	2	2	1	1	1	1	1

	2014	2015	2016	2017	2018
Fund	16.40	11.05	8.54	8.90	2.63
Comparative Index	19.50	10.42	10.73	7.51	-4.11

Source: Lipper as at 31 December 2018. Fund performance Euro W 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.

BNY MELLON INVESTMENT MANAGEMENT EMEA LIMITED - CLIENT SERVICES

Tel: +44 20 7163 2367 | Fax: +44 20 7163 2039

Email: internationalsales@bnymellon.com | Web: www.bnymellonim.com

PERFORMANCE COMMENTARY

Reflecting the weakness across global equity markets, a glance at the strongest performing stocks over the quarter provides no industrial or sector themes of note. However, the three oil companies held in the portfolio were among the weakest performers as a result of the weakness in the oil price.

OIL COMPANIES WERE AMONG THE DETRACTORS FROM PERFORMANCE DUE TO THE WEAK OIL PRICE

Putting Starbucks to one side, as the strongest performing stock of the quarter, the tough consumer environment globally was evident in the performance of the consumer discretionary names held – although those names generated relative outperformance.

Reflecting Walter Scott's focus on individual companies, here are the updates on a number of the Fund’s holdings. Gilead Sciences is a global leader in treatments for HIV and Hepatitis C, a position maintained by its track record in innovation, leading to improved patient outcomes. In December we had the first chance to meet with the company since the announcement of its new CEO, Daniel O’Day. We were given a broad recap of the rationale behind Mr O’Day’s appointment, including his track record of managing a large, complex organisation, his merger and acquisition experience and his understanding of the all-important payment landscape in the US. Although not a scientist, he comes with a significant understanding of the sector, following a career spanning 30 years at Roche. More specifically, the meeting provided an opportunity to query the relatively generous remuneration package that had been reportedly offered to Mr O’Day, as well as the decision to combine both the CEO and Chairman roles. The company commented that the package was competitive and appropriate for an individual of Mr O’Day’s calibre. In terms of the pairing of roles, they acknowledged that previously there had been an idea to separate the roles; however, this is now unlikely for the foreseeable future. As expected, the hiring of a former Roche executive should take Gilead further into the area of oncology. Mr O’Day’s experience in that field, where Roche is a leader, is likely to be invaluable as the company seeks to build on its recent acquisition of Kite Pharma. However, the treatment of HIV is, and will likely remain, Gilead’s mainstay franchise. No other company has come close to matching its consistently high levels of research and development productivity in HIV treatment. This is evidenced by its launch of 12 HIV drugs in the past 17 years. Although the ultimate goal is to find a cure for the disease, the company plans to pursue other ways to improve patient outcomes in the meantime.

As we move into 2019, the company is optimistic of seeing some success in its development pipeline. The hepatitis C franchise is now much smaller than it once was, but it offers a healthy cash-flow stream and is exhibiting a degree of stabilisation. The focus will now be on the company’s pipeline, development of its cell-therapy franchise and Mr O’Day’s strategic approach, which we expect to hear more on in due course.

Results from TJX Companies during 2018 were encouraging, following a comparatively (by its own high standards) lacklustre 2017. Performance at the top line has been particularly impressive, with the company notching up 9% same-store-sales growth in its key Marmaxx division in the third quarter. These encouraging revenue dynamics have helped to allay concerns around margin compression from currency, wage pressures and freight costs, which are more transitory effects and largely beyond the company’s control. We caught up with the company’s chief financial officer in London in December, and he attributed the phenomenal sales figures in part to improvements in flow execution. In other words, the company has learnt the lessons of the past and become more adept at channelling the right inventory to the right stores, from the right vendors, at the right times. As for the critical development of relationships with better quality vendors (i.e. desirable brands), TJX appears to have made good strides there too, no doubt helping drive strong store-traffic growth – which naturally correlates tightly with turnover. We also touched on other performance drivers such as efforts to improve the store experience, as well as the recent gentle inflection in prices, following a decade of pretty consistent headwinds on this front. While the strong performance in 2018 will make for some tough year-on-year comparisons in the coming year, we believe TJX is strongly positioned to maintain growth over the long term, thanks in no small measure to its buying power, compelling value-proposition and the inherent flexibility of its business model.

Inditex released results for the third quarter towards the end of the year. Falling slightly short of market expectations, the stock subsequently sold-off, but in our opinion the results were far from bad considering the very challenging industry environment and unusual weather. Sales were up 3% for the first nine months of the year, inclusive of a 4 percentage point currency headwind. Third-quarter local-currency sales growth slowed to 5%, with like-for-like sales (not reported) probably marginally positive. Gross margin was up over 100 basis points in the third quarter, as opposed to many of its peers, which had succumbed to early discounting in October and November. Furthermore, in contrast to statements from its peer group, the company noted a healthy like-for-like sales run rate heading into the all-important holiday season, giving management confidence to maintain the 4-6% sales growth guidance for the full second half.

ACTIVITY REVIEW

Integral to our investment strategy is a long-term outlook and 'buy and hold' approach, so activity is not a prominent feature of the Fund. During the course of the quarter, we took the decision to buy one holding.

A HOLDING IN SMC CORPORATION WAS BOUGHT DURING THE QUARTER

SMC Corporation is widely recognised as a leader in motion automation technology with particular strength in pneumatic equipment. After an exceptionally strong 2017, the performance of factory automation companies, including SMC, recently came under pressure due to increased concerns over trade tensions and cyclical weakness in electronics-related orders, as well as auto-related demand in North America. With strong growth expected to continue over the business cycle, the decision was taken to purchase SMC.

INVESTMENT STRATEGY AND OUTLOOK

As long-term investors, with a distinct and deliberate focus on company fundamentals, our approach does not change through the different phases of market and economic cycles. Meaningful growth, consistent profitability, balance-sheet strength, sound governance and sustainable practices, as well as a reasonable valuation are always prerequisites. But through those cycles, market interest in those individual characteristics will change. For the first time in a decade, both balance-sheet quality and leverage are rising in prominence.

WE ARE CONFIDENT OF THE STRENGTH AND OUTLOOK FOR COMPANIES THAT MEET OUR CRITERIA

With the cost of capital so low for so long, we believe the market hasn't cared about leverage .In our view, it hasn't cared about the many examples of gross misallocation of capital, or borrowed funds buying back fully-valued shares, or questionable acquisitions.

We have always cared about balance sheets and will not invest in imprudently leveraged companies. We have never believed that a healthy balance sheet equates to a lack of growth or opportunistic zeal.

As gearing levels appear to have risen in investor importance, so growth has been taken for granted. Across the board, earnings growth this year has been strong, particularly in the US. That strength is not mirrored in a chart of equity market performance over the course of the year. Politicians' tough talk on trade, the risk of a global slowdown increasing alongside expected interest rate rises, on top of geopolitical uncertainty in the Middle East and economic confusion across Europe, have all capped market moves and added volatility.

From that standpoint, 2019 looks uncertain. But we are more assured and believe there are definite grounds for confidence. With earnings growth strong over 2018 and the markets in negative territory, price-to-earnings multiples have fallen. With a long-term 'buy and hold' investment approach, such valuation opportunities are always welcome.

We believe the earnings outlook for the Fund's holdings remains healthy. The market has begun to recognise the merits of low debt and internal cash generation. Who knows where Brexit, or the newly coined possible 'Italexit', will end up? Or where trade 'discussions' between China and the US will lead? But over the long term, through market cycles, history shows that equity markets reflect the underlying companies, not the transient market mood. In the strength and outlook for companies that meet our consistently applied criteria, we remain confident.

TOP 10 HOLDINGS (%)

	Fund
AIA Group Ltd	2.8
Keyence Corp	2.5
MASTERCARD INC CL A	2.4
WATERS CORP COM	2.3
Inditex SA	2.2
Novo Nordisk A/S	2.2
Roche Holdings AG	2.2
ADOBE SYS INC DEL COM	2.2
Kone B	2.1
Compass Group PLC	2.1

INDUSTRIAL ALLOCATION (%)

	Fund	Comp. Index
Communication Services	0.0	2.6
Consumer Discretionary	15.1	12.6
Consumer Staples	9.2	8.1
Energy	6.8	6.5
Financials	2.3	16.3
Health Care	23.0	12.9
Industrials	9.7	11.3
Information Technology	26.8	19.1
Materials	4.1	4.7
Real Estate	0.0	2.9
Utilities	1.3	2.9
Cash	1.9	0.0

GEOGRAPHICAL ALLOCATION (%)

	Fund	Comp. Index
United States	51.76	61.97
Europe ex-UK	20.32	15.82
Japan	7.58	8.52
United Kingdom	6.40	6.07
Pacific ex-Japan	6.33	4.08
Emerging Markets	4.28	0.00
Canada	1.42	3.35
ROW	0.00	0.19

QUARTERLY ATTRIBUTION BY INDUSTRY

	Total Fund Return	Total Index Return	Stock Selection	Asset Allocation	Net Effect
Communication services	-5.85	-5.28	0.08	-0.21	-0.13
Consumer discretionary	-7.30	-13.15	0.90	-0.01	0.89
Consumer staples	-5.94	-5.29	-0.06	0.04	-0.02
Energy	-29.99	-20.42	-0.76	0.00	-0.76
Financials	-5.57	-12.47	0.22	0.05	0.27
Health care	-8.43	-7.98	-0.09	0.41	0.32
Industrials	-7.82	-14.95	0.84	0.02	0.86
Information technology	-13.73	-16.37	0.72	-0.33	0.39
Materials	-5.49	-12.53	0.28	-0.01	0.27
Real estate	0.00	-3.12	0.00	-0.28	-0.28
Utilities	5.86	2.07	0.06	-0.26	-0.20
Cash	1.00	0.00	0.00	0.29	0.29

QUARTERLY ATTRIBUTION BY GEOGRAPHY - TOP 5 CONTRIBUTORS

	Total Fund Return	Total Index Return	Stock Selection	Asset Allocation	Net Effect
Europe ex-UK	-7.66	-11.68	0.87	0.02	0.89
Pacific ex-Japan	-1.06	-6.46	0.39	0.14	0.53
Canada	1.18	-13.94	0.22	0.03	0.25
United Kingdom	-7.67	-10.36	0.13	-0.02	0.11
United States	-12.35	-12.42	0.09	0.01	0.10

QUARTERLY ATTRIBUTION BY GEOGRAPHY - TOP 5 DETRACTORS

	Total Fund Return	Total Index Return	Stock Selection	Asset Allocation	Net Effect
Emerging Markets	-17.93	0.00	0.00	-0.28	-0.28
ROW	0.00	-12.99	0.00	-0.01	-0.01
Japan	-12.91	-12.86	0.03	0.01	0.03
United States	-12.35	-12.42	0.09	0.01	0.10
United Kingdom	-7.67	-10.36	0.13	-0.02	0.11

Source: BNY Mellon Investment Management EMEA Limited

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.
- Emerging Markets have additional risks due to less-developed market practices.
- 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.
- 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 achieve long-term capital appreciation through investing primarily (meaning at least three quarters of the Fund's total assets) in a portfolio of equity and equity related securities of companies located throughout the world.

GENERAL INFORMATION

Total net assets (million)	€ 1,319.11
Active Share (%)	87.9
Comparative Index	MSCI World NR
Lipper sector	Lipper Global - Equity Global
Fund type	ICVC
Fund domicile	Ireland
Fund manager	Team approach
Base currency	EUR
Currencies available	EUR, USD, GBP, CHF
Fund launch	04 Apr 2008

DEALING

09:00 to 17:00 each business day
Valuation point: 22:00 Dublin time

EURO W (ACC.) SHARE CLASS DETAILS

Inception date	06 Dec 2012
Min. initial investment	€ 15,000,000
Ongoing costs	0.85%
Annual mgmt charge	0.75%
Max. initial charge	5.00%
ISIN	IE00B90PV268
Registered for sale in:	AT, BE, DK, DE, FR, FI, GG, IE, IT, JE, LU, NL, NO, PT, SG, 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