BNY Mellon Emerging Markets Debt Local Currency 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.

FUND RATINGS

MORNINGSTAR ★★

PERFORMANCE BENCHMARK

The Fund will measure its performance against JP Morgan GBI-EM Global Diversified Index (the "Benchmark"). The Investment Manager will use the Benchmark to construct the investment universe. The Fund is actively managed and does not seek to replicate the full constituents of the Benchmark. The Investment Manager has limited discretion to invest outside the Benchmark subject to the investment objective and policies disclosed in the Prospectus.

The majority of the Fund's holdings will be constituents of the Benchmark and the Fund will be similar in its currency exposures. However the Investment Manager does not seek to match the Benchmark's country or maturity profile. The investment strategy provides similar volatility to the Benchmark over the medium to long term.

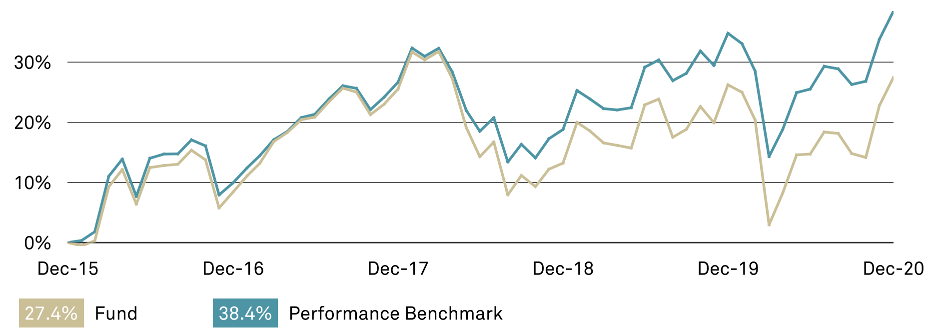
PERFORMANCE NOTE

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 positive return, net of fees, and outperformed its benchmark in the fourth quarter.
- Activity: We maintained our top-down positioning with a focus on long emerging market currency in selected currencies, funded against a combination of US dollars and euros.
- Outlook & Strategy: We expect the emerging market currency rally and US dollar weakness to continue.

5 YEAR CUMULATIVE PERFORMANCE (%)



PERFORMANCE SUMMARY (%)

					Annualised		
	1M	3M	YTD	1YR	2YR	3YR	5YR
USD W (Acc.)	3.82	11.01	0.96	0.96	6.09	0.50	4.96
Performance Benchmark	3.48	9.62	2.69	2.69	7.94	3.00	6.71
Sector	3.58	9.91	3.34	3.34	7.01	1.45	5.10
No. of funds in sector	150	150	146	146	129	116	95
Quartile	2	1	4	4	3	3	3

	2016	2017	2018	2019	2020
Fund	8.40	15.80	-9.81	11.50	0.96
Performance Benchmark	9.94	15.21	-6.21	13.47	2.69

Source: Lipper as at 31 December 2020. 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.

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PERFORMANCE COMMENTARY

The Fund had a very robust fourth quarter, driven by US dollar weakness and local rates strength.

GAINS CAME FROM ALL CURRENCY, DURATION AND SPREAD COMPONENTS

Developed fixed income markets performed positively over the period. The Bloomberg Barclays Global Aggregate Unhedged Index rose by 3.28%, while the Bloomberg Barclays Global Aggregate Hedged Index increased by 0.88%. The Bloomberg Barclays US Aggregate Index returned 0.67%.

In the US, markets outperformed as a long-anticipated vaccine was released to combat Covid-19, which saw case increases in the fourth quarter. In November, Joe Biden won the presidency, defeating incumbent President Donald Trump. The following month, Congress passed the latest coronavirus relief package after some initial debate around the bill's contents stalled its approval. US dollar performance fluctuated in the quarter but fell by the end of the period.

Among developed markets, Europe grappled with a second Covid-19 wave, which forced many countries to reinstitute strict lockdowns. According to the Centers for Disease Control and Prevention, a new coronavirus strain discovered in the UK could be more contagious than the virus's first manifestation. A long-awaited Brexit trade deal between the UK and the EU eased years of uncertainty about the future economic relationship between the two parties.

Emerging markets saw mostly positive performance during the period, despite the ongoing battle with Covid-19. Two countries hardest hit by the pandemic were India and Brazil, reporting the highest numbers of cases and deaths. China's economic recovery continued throughout the period, although eased somewhat in December. The Caixin/Markit manufacturing PMI fell to 53.0 by the end of the quarter.

Commodities advanced as measured by the Thomson Reuters Core Commodity CRB Index. Petroleum producers began the fourth quarter in a challenging environment due to stunted global oil consumption. However, a weak dollar decreased US crude reserves and the announcement of a viable Covid-19 vaccine helped the oil industry end the period on a high note. Finally, demand for gold waned early in the period but then rallied, stabilised and posted quarterly gains.

The Fund outperformed its benchmark in the fourth quarter as risk markets rallied due to reduced policy uncertainty with the US presidential election. The approval and distribution of vaccines eased concerns about further Covid-19-related economic disruptions. While the number of Covid-19 cases spiked to new highs and forced many countries to impose another round of lockdowns, the market looked ahead to a healthier 2021. The currency market theme was US dollar weakness. All currencies appreciated against the US dollar as the market continued to price out the risk premium the dollar enjoyed thanks to the combination of economic uncertainty due to Covid-19 and policy uncertainty due to the US election.

In terms of relative performance, gains came from all currency, duration, and spread components. The main contributors on the currency side were long positions in the Russian rouble, Chilean peso and Colombian peso. From a duration perspective, our long positions in Mexico, South Africa and Russia were beneficial for period results. On the spread side, our exposure to quasi-sovereigns in Mexico and Colombia contributed.

ACTIVITY REVIEW

We maintained our top-down positioning during the quarter.

WE INTRODUCED A RELATIVE VALUE LONG THAI BAHT SHORT PHILIPPINE PESO

Our top-down positioning during the quarter was characterised by long emerging market currency in selected currencies funded against a combination of US dollars and euros, and long duration approximately of one-year contribution to duration in countries with healthy fundamentals and strong support from local investors. Throughout the quarter, significant changes include introducing a relative value long Thai baht short Philippine peso driven by cyclical Covid-19-related factors. Additionally, we participated in the new issuance of BTPCL 2033s from Chile, issued under the country's Sustainable Bond Framework.

INVESTMENT STRATEGY AND OUTLOOK

We expect the emerging market currency rally and US dollar weakness to continue.

ASIAN ECONOMIES MAY REAP THE FULL BENEFIT OF LOOSE GLOBAL FINANCIAL CONDITIONS

As we close the book on 2020 and turn towards 2021, the global economy is finding its footing. While the virus continues to spread rapidly across the United States, and Europe rings in the New Year with a return to lockdowns, the end of the pandemic is in sight with the rollout of multiple vaccines across the globe.

Asian economies, which have done a more effective job of containing the virus, are being pulled higher by the Chinese economy's strong performance. Unencumbered by rolling lockdowns, these economies can reap the full benefit of loose global financial conditions and counter-cyclical fiscal policy. Economic activity in the US and Europe will likely remain disrupted in the first quarter of 2021 by the pandemic and the temporary interruption of economic stimulus. Entering the spring months, however, we believe a vigorous rebound could take hold. In the UK, after much negotiation, the terms of Brexit have largely been finalised. Addressing the uncertainty around the UK's future status should provide a tailwind for the UK and European economies, in our view. Still, the practical impact of the separation remains to be seen.

In the United States, economic activity remains heavily distorted by the ongoing spread of Covid-19 and a patchwork of local and regional mitigation efforts. Unfortunately, this state-by-state approach has proven as ineffective in arresting the spread of the virus as it has been in preventing economic damage. The recently passed fiscal stimulus will provide considerable support to national disposable income and should prevent consumption from dropping dramatically in the early months of 2021. This stimulus, combined with ongoing monetary policy support, could provide a "bridge" to the second quarter when rising vaccination rates will see the economy reopen organically. We expect a strong rebound in growth starting this spring to drive 2021 growth well above potential. The level of national GDP is likely to remain somewhat below its pre-Covid peak until next year. With inflation low and few signs of underlying pressure on wages, the Federal Reserve will almost surely maintain its current accommodative stance for the foreseeable future. This accommodation and waning 'safe-haven' demands should impart steady downward pressure on the dollar over the medium-term.

In Europe, the near-term outlook is discouraging on the back of strict lockdowns across the continent. These measures will help reduce the impact on stretched hospital systems at the cost of hobbling first quarter economic performance. While the details are different and the magnitude more pronounced, Europe is likely to follow an economic trajectory similar to that of the US. Given generous wage replacement programs in place, a vigorous rebound in consumer spending should drive growth in the spring and early summer. Unfortunately, even this strong rebound is unlikely to see aggregate economic activity exceed its pre-Covid peak before 2022. With the terms of the UK/Europe divorce mostly finalised, the coming months will see growing pains on both sides of the Channel as the UK and European businesses adjust to the “new normal”. The medium-term impact of Brexit is difficult to determine but the proximate costs of dismantling established trading relationships will be significant.

In Asia, economic activity continues to rebound smartly as the region reaps the rewards of its well-executed Covid-19 response. Strong Chinese growth has driven the recovery in local trading partners, leading to general outperformance of Asian economies. Looking forward, while economic momentum has begun to wane with the Chinese credit impulse peaking and the yuan strengthening, we expect growth to remain strong over the coming months. However, this strength will depend on a smooth transition to internal consumption as a driver of activity. Inflation in China and the region-at-large remains well-contained, with few, if any, signs of sustainable upward pressure on prices. These inflation dynamics, combined with weakening (although still strong) leading indicators of activity, offer a limited scope for further policy normalisation from the People’s Bank of China.

With a weaker health infrastructure and a greater reliance on the informal sector, Latin America's economies have struggled significantly from the pandemic. The rebound in global trade and ample liquidity in financial centres do buffers the shock, albeit incompletely.

CREDIT QUALITY BREAKDOWN (%)

	Fund
AAA	1.6
AA	0.1
AA-	5.5
A+	13.3
A	3.8
A-	6.4
BBB+	16.6
BBB	26.5
BBB-	7.6
BB	17.9
BB-	0.2
Others	0.4

TOP 10 HOLDINGS (%)

	Fund
China CGB 3.29% 05/23/2029	6.3
PETROLEOS MEXICANOS 7.19% 09/12/2024	6.0
Russia RFLB 7.05% 01/19/2028	4.9
South Africa SAGB 7% 02/28/2031	4.8
Russia RFLB 8.15% 02/03/2027	4.3
Mexico MBONO 8.5% 05/31/2029	4.3
EMPRESAS PUBLIC MEDELLIN 8.375% 08/08/2027	4.2
ZA RSA 10.5% 12/21/2026	4.1
South Africa SAGB 8.75% 02/28/2048	4.0
Mexico Bonos 7.5% 06/03/2027	4.0

Source: BNY Mellon Investment Management EMEA Limited

REGIONAL ALLOCATION (%)

	Fund
Latin America	38.5
Asia	30.1
Europe	16.8
Africa	12.9
Others	1.6

CONTRIBUTION TO DURATION (YEARS)

	Fund	Perf. B'mark
Mexico	0.9	0.5
South Africa	0.8	0.5
China	0.8	0.4
Russia	0.7	0.4
Indonesia	0.7	0.6
Thailand	0.5	0.7
Colombia	0.5	0.3
Chile	0.5	0.2
Others	1.1	1.8

PORTFOLIO CHARACTERISTICS

	Fund	Perf. B'mark
Modified duration	6.7	5.4
Yield to Worst (%)	5.6	4.0
No. of issuers	28	19
Average life	9.8	7.3
Average quality	BBB	BBB
Average Coupon (%)	6.6	5.4
Current yield (%)	6.2	5.0

CURRENCY BREAKDOWN (%)

	Fund	Perf. B'mark
Chinese Yuan Renminbi	13.3	8.8
Russian Ruble	12.4	7.5
Mexican Peso	11.9	9.6
Polish Zloty	11.5	8.0
Thai Baht	10.9	8.6
Indonesian Rupiah	9.7	9.4
Brazilian Real	9.3	8.8
South African Rand	8.1	7.9
Colombian Peso	7.9	5.6
Malaysian Ringgit	7.4	6.8
Czech Koruna	6.9	3.9
Chilean Peso	4.9	2.8
Hungarian Forint	4.1	3.9
Others	-18.3	8.5

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 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 share class currency and the base currency may affect the value of your investment.
- Certain share classes use 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 the currency risk.
- A complete description of risk factors is set out in the Prospectus in the section entitled "Risk Factors".

INVESTMENT OBJECTIVE

To achieve a superior total return from a portfolio of bond and other debt instruments, including derivatives thereon, from emerging markets.

GENERAL INFORMATION

Total net assets (million)	$ 167.01
Performance Benchmark	JP Morgan GBI-EM Global Diversified TR
Lipper sector	Lipper Global Bond Emerging Markets Global LC
Fund type	ICVC
Fund domicile	Ireland
Fund manager	Dedicated Team
Base currency	USD
Currencies available	EUR, USD, GBP
Fund launch	28 Apr 2006

DEALING

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

USD W (ACC.) SHARE CLASS DETAILS

Inception date	07 Dec 2012
Min. initial investment	$ 15,000,000
Max. initial charge	5.00%
ISIN	IE00B7RFHJ47
Registered for sale in:	AT, BE, CL, DK, DE, FR, FI, GG, IE, IT, JE, LU, NL, NO, PT, ES, SE, CH, GB

USD W (ACC.) COSTS AND CHARGES (%)

Ongoing Costs	0.88
Management fee	0.65
Other costs & charges	0.23
Transaction costs ex ante	0.15

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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