

# BNY Mellon UK Income Fund

## INVESTMENT MANAGER



Newton Investment Management: Newton pursues a distinctive global thematic investment approach and provides added value from extensive proprietary research.

## FUND RATINGS



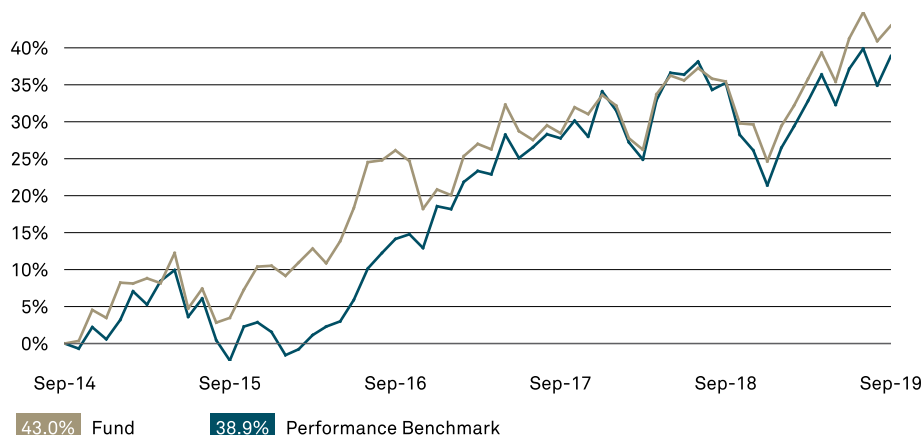
## PERFORMANCE DISCLOSURE

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, over the quarter but lagged its comparative index.
- **Activity:** We added to our holding in exhibitions business Informa and took some profits in packaging company Smurfit.
- **Outlook & Strategy:** We strive to deliver outperformance through stock picking, rather than positioning the Fund for a particular Brexit outcome.

### 5 YEAR CUMULATIVE PERFORMANCE (%)



### PERFORMANCE SUMMARY (%)

	Annualised						
	1M	3M	YTD	1YR	2YR	3YR	5YR
Institutional Shares W (Acc.)	1.49	1.23	14.73	5.58	5.51	4.27	7.41
Performance Benchmark	2.95	1.27	14.41	2.68	4.26	6.76	6.79
Sector	3.40	1.08	11.82	-0.37	1.56	4.51	5.59
No. of funds in sector	87	87	86	85	83	78	74
Quartile	4	2	1	1	1	3	1
	2014	2015	2016	2017	2018		
Fund	6.40	6.81	9.33	10.56	-6.70		
Performance Benchmark	1.18	0.98	16.75	13.10	-9.47		

Source for all performance: Lipper as at 30 September 2019. Fund Performance for the Institutional Shares W (Accumulation) calculated as total return, including reinvested income net of UK tax and charges, based on net asset value. All figures are in GBP terms. The impact of an initial charge (currently not applied) can be material on the performance of your investment. Further information is available upon request.

Effective 10 June 2019, the Fund name changed from Newton UK Income Fund to BNY Mellon UK Income Fund.

## BNY MELLON INVESTMENT MANAGEMENT EMEA LIMITED - CLIENT SERVICES

Tel: 08085 660 000 | Email: [brokersupport@bnymellon.com](mailto:brokersupport@bnymellon.com) Tel: +44 20 7163 2367 |  
[internationalsales@bnymellon.com](mailto:internationalsales@bnymellon.com) | Web: [www.bnymellonim.com](http://www.bnymellonim.com)

## PERFORMANCE COMMENTARY

The Brexit political crisis, the US-China trade dispute and a slowing global economy continued to dominate news flow. On a total-return basis, the FTSE All-Share Index returned +1.3% in the third quarter of 2019. Bond yields dropped, with the UK 10-year gilt yield reaching a record low of 0.382%.

### AIB GROUP AND PRUDENTIAL WEIGHED ON RETURNS, WHILE STOCK SELECTION IN THE INDUSTRIALS SECTOR, INCLUDING BAE SYSTEMS, WAS POSITIVE FOR PERFORMANCE

The global manufacturing purchasing managers' index hit its lowest level since 2012, the Organisation for Economic Cooperation and Development's (OECD) leading economic indicator reached a ten-year low, and Citigroup's Global Economic Surprise Index fell to a six-year low. Negative-yielding debt remained a disquieting feature of bond markets. By the end of September, \$15 trillion worth of global debt carried a negative yield.

Drone strikes on Saudi Arabia's oil facilities temporarily knocked out half of Saudi Arabia's oil output leading to a spike in the oil price. Investors were worried about how long it would take oil output to recover, how vulnerable the oil facilities would be to further attacks, and the broader geopolitical and economic implications. In the event, oil output quickly recovered to its pre-attack levels and the oil price drifted back down towards the end of the quarter.

Despite concern about the health of the global economy, global equity markets ended the quarter close to their all-time highs as falling bond yields meant market participants continued to hunt for yield elsewhere.

In the UK, the Supreme Court ruled that the prime minister's decision to prorogue (suspend) Parliament from 9 September was "unlawful, void and of no effect". Despite Brexit uncertainty, economic news was reasonably encouraging. Wage growth in the UK reached an 11-year high of 3.9%, the employment rate of 76.1% was its joint highest since 1971, and a record high of 32.8 million people were in employment according to the Office for National Statistics. The UK economy, despite the Brexit drama, remains surprisingly resilient.

The Fund delivered a positive return, but marginally lagged its comparative index. On the negative side, financials lagged. The prospect of a no-deal Brexit was a major drag on shares in AIB Group, a reflection of investors' expectations for Irish economic growth in such a scenario. Meanwhile, first-half earnings disappointed as additional requirements for capital reduced the amount available to return to shareholders, while the low interest rate backdrop continued to put pressure on margins in AIB's mortgage business. Life insurer Prudential detracted – affected by political unrest in Hong Kong, with investors speculating over the impact on new business sales. Not holding takeover target London Stock Exchange was also a negative. However, the negatives were partly offset by a strong performance from Zurich Insurance, and from the underweight in large index constituent HSBC, which was affected by the same issues as Prudential.

The Fund benefited from stock selection in the industrials sector, where aerospace engineer BAE Systems performed strongly on expectations that the company will seal a multi-million-pound contract to supply New Zealand with its advanced warships. BBA Aviation also contributed after disposing of its Ontic business at an attractive price. Other contributors included US utility company Eversource Energy, which performed well as stable US-dollar-earning companies were in demand as bond yields fell and the US dollar rallied. National Express was also strong after issuing record interim results.

## ACTIVITY REVIEW

We added to the position in Informa. Following its acquisition of UBM, the company is a world leader in exhibitions, which is a high-return business with significant growth potential. We think the market underestimates the long-term potential for profit growth as sales grow ahead of costs, leading to margin expansion.

### WE TOOK SOME PROFITS IN SMURFIT KAPPA AND TOPPED UP THE HOLDING IN EXHIBITIONS BUSINESS INFORMA FOLLOWING ITS ACQUISITION OF UBM

So far, the market has been focused on the short-term benefits of cost savings as a result of integrating UBM, but there has been little focus on the potential for cross-selling opportunities once the businesses have been integrated. With a free-cash-flow yield of 6.4% in 2019, which is significantly cheaper than the market for a company with superior growth potential and a lower level of economic cyclicality, we think the company looks attractive. We also added to the holding in financial-advice and wealth-management firm St. James's Place. We believe continued strong net inflows, combined with the large pension book, will deliver attractive levels of growth for some time to come.

Following good performance this year, we trimmed the holding and took some profits in packaging company Smurfit Kappa. We retain a holding as, with an anticipated reduction in capital expenditure from current elevated levels, we expect the already strong free-cash-flow generation and free-cash-flow yield to improve from here. We also reduced the weighting in Vodafone after it announced the sale of its Towers business which caused the shares to rally. We maintain a position as we continue to see value in the shares but are conscious that sales growth has come in below our expectations and needs to improve.

## INVESTMENT STRATEGY AND OUTLOOK

There has been little change to our outlook over the quarter. Economic growth and financial market returns will continue to be influenced by the monetary policy actions of the leading central banks and increasingly by the fiscal policies adopted by individual governments with the willingness and ability to spend.

### WE STRIVE TO DELIVER OUTPERFORMANCE THROUGH STOCK-PICKING, RATHER THAN POSITIONING THE FUND FOR A PARTICULAR BREXIT OUTCOME

Geopolitical trade negotiations between the world's two largest economies have yet to be resolved, and in the UK, Brexit discussions are likely to continue to affect corporate investment decisions and sentiment over the short term. In this environment, we believe identifying areas of temporary controversy rather than structural decline is more important than ever, which is where our thematic approach is key.

We also strive to deliver outperformance through stock picking, rather than positioning the Fund for a particular Brexit outcome. The Fund is relatively balanced with respect to the 'winners' and 'losers' in different Brexit scenarios. We continue to see long-term good structural growth in some of our favourite international businesses, but we also find significant value in a number of UK domestic names. Currently, 30 of the 100 companies in the FTSE 100 Index trade on a forward-looking price-earnings ratio of less than 10x. The dividend yield on the FTSE All-Share Index was 4.3% at the end of August, which is its

highest level in the last 25 years, excluding the global financial crisis. For the long-term investor, the UK market currently looks inexpensive.

**TOP 10 HOLDINGS (%)**

	<b>Fund</b>
Royal Dutch Shell PLC	5.6
British American Tobacco PLC	4.3
BAE Systems PLC	4.2
GlaxoSmithKline PLC	4.1
RELX	4.1
Diageo PLC	3.8
BP PLC	3.8
Prudential PLC	3.5
National Express Group PLC	3.4
Smiths Group PLC	3.4

**INDUSTRIAL ALLOCATION (%)**

	<b>Fund</b>	<b>Perf. B'mark</b>
Industrials	14.1	11.7
Basic Materials	2.6	7.4
Oil & Gas	11.4	13.2
Telecommunications	3.6	2.8
Consumer Goods	16.1	14.3
Utilities	4.4	2.7
Consumer Services	13.7	11.9
Technology	1.4	1.0
Health Care	9.2	9.4
Financials	20.2	25.6
Cash	3.4	0.0

**QUARTERLY ATTRIBUTION BY INDUSTRY**

	<b>Total Fund Return</b>	<b>Total Index Return</b>	<b>Stock Selection</b>	<b>Asset Allocation</b>	<b>Net Effect</b>
Industrials	7.04	4.02	0.43	0.08	0.51
Basic Materials	-14.10	-10.00	-0.14	0.58	0.45
Oil & Gas	-4.69	-5.26	0.06	0.14	0.20
Telecommunications	13.29	14.90	-0.06	0.16	0.10
Consumer Goods	3.34	3.46	-0.02	0.06	0.04
Utilities	5.47	6.57	-0.04	0.08	0.04
Consumer Services	4.42	5.56	-0.14	0.09	-0.05
Technology	-13.83	-14.75	0.01	-0.08	-0.06
Health Care	7.91	12.57	-0.42	0.07	-0.35
Financials	-3.41	-0.57	-0.55	0.09	-0.46
Cash	0.11	0.00	0.00	-0.06	-0.05

Source: BNY Mellon Investment Management EMEA Limited

**KEY RISKS ASSOCIATED WITH THIS FUND**

- There is no guarantee that the Fund will achieve its objectives.
- The Fund primarily invests in a single market which may have a significant impact on 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.
- 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.
- A complete description of risk factors is set out in the Prospectus in the section entitled "Risk Factors".

**INVESTMENT OBJECTIVE**

To generate distributions over an annual period together with long term capital growth.

**GENERAL INFORMATION**

Total net assets (million)	£ 1,265.01
Historic yield (%)	4.41
Active Share (%)	60.2
Performance Benchmark	FTSE All-Share TR
IA Sector	UK Equity Income
Lipper sector	Lipper Global - Equity UK Income
Fund type	ICVC
Fund domicile	UK
Fund manager	Emma Mogford
Alternate	Nick Clay
Base currency	GBP
Currencies available	GBP
Fund launch	01 Jun 1987
Distribution dates	28 Feb, 31 May, 31 Aug, 30 Nov

**DEALING**

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

**INSTITUTIONAL SHARES W (ACC.) SHARE CLASS DETAILS**

Inception date	04 Sep 2012
Min. initial investment	£ 10,000,000
ISIN	GB00B7M90R07
Bloomberg	NEWHIWA
Sedol	B7M90R0
Registered for sale in:	CL, GB

**INSTITUTIONAL SHARES W (ACC.) COSTS AND CHARGES (%)**

Ongoing Costs	0.79
Management fee	0.75
Other costs & charges	0.04
Transaction costs ex ante	0.33

Source: BNY Mellon Investment Management EMEA Limited

Any views and opinions are those of the investment manager, unless otherwise noted.

**IMPORTANT INFORMATION**

**For Professional Clients only. This is a financial promotion and is not investment advice. For a full list of risks applicable to this fund, please refer to the Prospectus. Before subscribing, investors should read the most recent Prospectus and KIID for each fund in which they want to invest. Go to [www.bnymellonim.com](http://www.bnymellonim.com). The Prospectus and KIID are available in English and in an official language of the jurisdictions in which the Fund is registered for public sale.** Portfolio holdings are subject to change, for information only and are not investment recommendations. Calls may be recorded. For more information visit our Privacy Policy at [www.bnymellonim.com](http://www.bnymellonim.com). BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and its subsidiaries. Investments should not be regarded as short-term and should normally be held for at least five years. The Fund is a sub-fund of BNY Mellon Investment Funds, an open-ended investment company with variable capital (ICVC) with limited liability between sub-funds. Incorporated in England and Wales: registered number IC27. The Authorised Corporate Director (ACD) is BNY Mellon Fund Managers Limited (BNY MFM), incorporated in England and Wales: No. 1998251. Registered address: BNY Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA. Authorised and regulated by the Financial Conduct Authority. Issued in the UK by BNY Mellon Investment Management EMEA Limited, BNY Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA. Registered in England No. 1118580. Authorised and regulated by the Financial Conduct Authority.

MIS0067-311219

MIC036-311219

Issued on 16/10/2019