

# BNY Mellon Emerging Income Fund

## INVESTMENT MANAGER



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

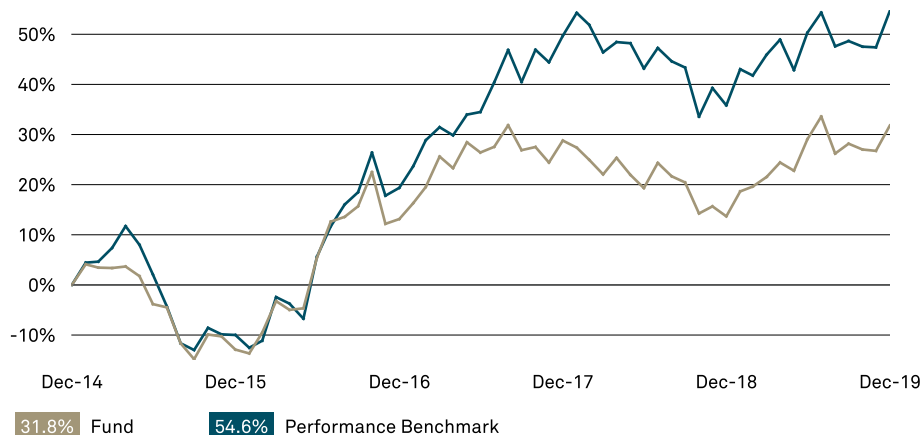
## PERFORMANCE DISCLOSURE

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 performance, net of fees, but lagged its performance benchmark over the quarter.
- **Activity:** We began a new holding in Kasikornbank (KBank) and bought Indian IT outsourcer Infosys.
- **Outlook & Strategy:** We believe the disciplines of our process and the strict yield criteria, which force us to sell stocks when they become too expensive and reinvest in better-value quality opportunities, are extremely important.

### 5 YEAR CUMULATIVE PERFORMANCE (%)



### PERFORMANCE SUMMARY (%)

	Annualised						
	1M	3M	YTD	1YR	2YR	3YR	5YR
Institutional Shares W (Acc.)	3.99	2.83	15.94	15.94	1.16	5.22	5.67
Performance Benchmark	4.93	4.03	13.86	13.86	1.64	9.01	9.11
Sector	4.35	3.74	16.99	16.99	2.03	9.04	9.23
No. of funds in sector	64	63	60	60	57	55	52
Quartile	3	3	3	3	3	4	4
	2015	2016	2017	2018	2019		
Fund	-12.90	29.90	13.84	-11.74	15.94		
Performance Benchmark	-9.99	32.63	25.40	-9.27	13.86		

Source for all performance: Lipper as at 31 December 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 Emerging Income Fund to the BNY Mellon Emerging Income Fund.

The Sub-Fund is managed without benchmark-related constraints. The Sub-Fund uses the MSCI Emerging Markets NR Index as a point of reference (comparator) against which the ACD (Authorised Corporate Director) invites Shareholders to compare the Sub-Fund's performance. The ACD considers this index to be an appropriate comparator because the Investment Manager utilises it when measuring the Sub-Fund's income yield.

## BNY MELLON INVESTMENT MANAGEMENT EMEA LIMITED - CLIENT SERVICES

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## PERFORMANCE COMMENTARY

Emerging markets advanced in the final quarter of 2019, despite China's third quarter GDP growth slipping further to 6.0% annualised – the lowest for nearly 30 years, and anti-government protests pushing the Hong Kong economy into recession.

### AMONG THE LARGEST DETRACTORS WAS UTILITY AGUAS ANDINAS, WHILE LINK REIT WAS AFFECTED BY PROTESTS IN HONG KONG

Markets were buoyed by signs of a stabilisation of global manufacturing data, but by far the biggest positive influence was the hope of a breakthrough in the trade war between the US and China. This hope was rewarded in December when the US and China agreed a preliminary deal which could lead to a significant de-escalation in trade tensions.

The Fund underperformed over the quarter. There was generally an appetite for more cyclical stocks, which meant that the Fund lagged the index owing to its more defensive bias. However, against a backdrop of double digit returns from emerging equity markets in 2019, the Fund outperformed its performance benchmark over 2019 as a whole.

The largest detractor was utility Aguas Andinas, which fell along with the wider Chilean market, as the country's president announced a state of emergency in October, as political protests descended into rioting. Similarly, Link REIT continued to be affected by social unrest in Hong Kong. Real estate stocks were generally out of favour, as was Indian tobacco company ITC, despite reporting strong results during the quarter.

Elsewhere, Unilever shares fell as the company downgraded its sales guidance for 2019. This was disappointing but appeared to be driven by slowing growth in emerging markets, owing to trends in demand rather than any weakness in Unilever's competitive positioning.

Another large detractor from relative performance was the Fund's lack of exposure to Chinese internet group Alibaba, which issued solid second quarter results and then rose sharply after it made its secondary listing debut on the Hong Kong Stock Exchange. The Fund cannot hold the stock owing to its low yield. However, overall, technology was an area of strength. Taiwan Semiconductor (TSMC) and Samsung Electronics maintained their strong performance, with both reporting profits ahead of expectations.

It was a mixed picture in financials. Bangkok Bank announced the purchase of an 89% stake in Indonesian bank Permata for US\$2.6bn in cash. The share price fell heavily on the news, with investors struggling to find value in the deal. However, this was more than offset by Indian financial holding Reliance Nippon Asset Management and Bank of Georgia. Shares in both companies leapt after their latest results impressed.

## ACTIVITY REVIEW

Recent weak share price performance in the Thai banking sector provided us with an attractive entry point to invest in Kasikornbank (KBank). We believe that most of the factors that have driven the underperformance are cyclical, while KBank's strong capital and balance-sheet provisions should enable it to absorb losses in an event of a downturn and return significant capital in periods of slower growth.

## WE BEGAN NEW POSITIONS IN KASIKORNBANK AND INDIAN IT OUTSOURCER, INFOSYS

We also took advantage of the share price weakness to buy Indian IT outsourcer Infosys after it dropped sharply as whistle blowers within the firm alleged that senior executives had overseen questionable accounting practices. Management to date has reported that it has not received evidence to support the allegations, and indeed our own research found that the company's accounting practices follow the industry standard. We like the company as its services are well diversified across industries and geographies, and on account of the management team's focus on the strategy of driving growth through improved efficiency and investing in new offerings. We believed the stock's valuation to be attractive, and it offers a solid dividend yield.

We sold real estate development company Emaar Malls owing to the challenging consumer environment and the highly competitive retail market in Dubai. We also sold the small holding in luxury car dealership China Harmony New Energy, owing to concerns relating to declining new car sales and corporate governance. In addition, we used strong share-price performance to take some profits in TSMC.

## INVESTMENT OUTLOOK AND STRATEGY

In the face of the continued economic slowdown, central banks around the world have eased monetary policy at a faster rate than at any point since 2009, leading to a stellar rally in global equity markets. Global manufacturing, which has been at the epicentre of the recent economic malaise, has recently shown signs of stabilisation, but an array of uncertainties persists.

## AS THE CHINESE ECONOMY LOSES MOMENTUM, WE ARE CAUTIOUS ABOUT THE OUTLOOK FOR ECONOMIES AND FINANCIAL MARKETS OVER THE MEDIUM TERM

Political risks are likely to remain elevated over the coming year as global trade tensions continue and the US gears up for a presidential election. Debt in the world's major economies is at historically high levels, while the changing climate and technological innovation have the potential to disrupt industries across the world. The Chinese economy, widely viewed as the engine driving global growth, has continued to lose momentum.

We are therefore cautious about the outlook for economies and financial markets over the medium term. Some stocks, which might ostensibly appear relatively safe and defensive, are less attractive than they were given extended valuations and heightened expectations. Given this backdrop, we believe the disciplines of our process and the strict yield criteria, which force us to sell stocks when they become too expensive and reinvest in better-value quality opportunities, are extremely important.

## TOP 10 HOLDINGS (%)

	Fund
Samsung Electronics Co Ltd	7.5
Taiwan Semiconductor Manufacturing	7.1
Clicks Group Ltd	4.6
British American Tobacco PLC	4.4
Trans Alianca de Energia Elec	4.1
Infraestructura Energetica	4.0
Alupar Investimento SA	3.7
Voltronic Power Technology	3.6
MacQuarie Korea Infrastructure	3.5
AIA Group Ltd	3.2

## INDUSTRIAL ALLOCATION (%)

	Fund	Perf. B'mark
Industrials	7.6	5.3
Information Technology	16.4	15.7
Financials	22.3	24.2
Energy	2.8	7.4
Consumer Staples	17.1	6.3
Health Care	1.8	2.8
Utilities	13.7	2.6
Communication Services	5.0	11.0
Materials	4.7	7.4
Consumer Discretionary	2.1	14.2
Real Estate	4.4	3.0
Cash	2.1	0.0

## QUARTERLY ATTRIBUTION BY INDUSTRY

	Total Fund Return	Total Index Return	Stock Selection	Asset Allocation	Net Effect
Industrials	7.47	0.26	0.52	-0.08	0.45
Information Technology	13.69	10.62	0.42	0.00	0.41
Financials	3.53	2.12	0.27	0.04	0.31
Energy	3.23	2.14	0.03	0.08	0.11
Consumer Staples	1.27	-4.61	1.01	-0.89	0.11
Health Care	11.87	6.68	0.08	-0.02	0.06
Utilities	1.51	-3.01	0.59	-0.73	-0.15
Communication Services	-6.79	2.10	-0.48	0.09	-0.39
Materials	-3.87	4.49	-0.39	-0.02	-0.41
Consumer Discretionary	6.88	8.59	-0.05	-0.47	-0.51
Real Estate	-8.10	9.42	-0.90	0.11	-0.79
Cash	3.76	0.00	0.09	-0.10	-0.01

## QUARTERLY ATTRIBUTION BY GEOGRAPHY - TOP 5 CONTRIBUTORS

	Total Fund Return	Total Index Return	Stock Selection	Asset Allocation	Net Effect
South Africa	10.57	5.22	0.73	0.14	0.86
Mexico	10.28	-1.20	0.96	-0.33	0.63
Taiwan	15.23	9.71	0.53	-0.07	0.46
Georgia	13.90	0.00	0.36	-0.11	0.25
Saudi Arabia	0.00	-4.43	0.00	0.21	0.21

## QUARTERLY ATTRIBUTION BY GEOGRAPHY - TOP 5 DETRACTORS

	Total Fund Return	Total Index Return	Stock Selection	Asset Allocation	Net Effect
Chile	-19.31	-15.19	-0.22	-0.77	-0.98
China	-0.42	6.71	-0.17	-0.78	-0.94
Indonesia	-12.40	-0.49	-0.38	-0.05	-0.43
Hong Kong	-0.37	0.00	-0.04	-0.35	-0.39
United Kingdom	-10.35	0.00	-0.21	-0.08	-0.29

Source: BNY Mellon Investment Management EMEA Limited

## GEOGRAPHICAL ALLOCATION (%)

	Fund	Perf. B'mark
South Africa	15.65	4.74
South Korea	11.01	11.72
Taiwan	10.71	11.70
Brazil	9.52	7.47
Mexico	9.08	2.28
Hong Kong	9.03	0.00
India	7.92	8.63
Chile	4.11	0.74
Thailand	3.82	2.58
Czech Republic	3.22	0.13
Georgia	2.90	0.00
Indonesia	2.83	1.93
Portugal	2.77	0.00
China	2.10	34.28
Cash	2.06	0.00
United Kingdom	1.82	0.00
Malaysia	1.44	1.81
United Arab Emirates	0.00	0.60
Argentina	0.00	0.16
Greece	0.00	0.30
Peru	0.00	0.34
Philippines	0.00	0.95
Pakistan	0.00	0.03
Poland	0.00	0.88
Russia	0.00	3.92
Turkey	0.00	0.49
Hungary	0.00	0.30
Colombia	0.00	0.37
Egypt	0.00	0.14
Qatar	0.00	0.92
Saudi Arabia	0.00	2.59

**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 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 Fund may invest in China A shares through Stock Connect programmes. These may be subject to regulatory changes and quota limitations. An operational constraint such as a suspension in trading could negatively affect the Fund's ability to achieve its investment objective.
- 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**

The Fund aims to achieve income together with capital growth over the long term (5 years or more).  
As at 26 May 2016, the Performance Benchmark of the Fund was changed from FTSE Emerging Index to MSCI Emerging Index (NR).

**GENERAL INFORMATION**

Total net assets (million)	£ 96.99
Historic yield (%)	3.85
Active Share (%)	89.7
Performance Benchmark	MSCI EM (Emerging Markets) NR
IA Sector	Global Emerging Markets
Fund domicile	UK
Fund manager	Zoe Kan / Nick Clay
Base currency	GBP
Currencies available	GBP
Fund launch	04 Oct 2012
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	15 Oct 2012
Min. initial investment	£ 10,000,000
ISIN	GB00B8GGF462
Bloomberg	NEWEIWA
Sedol	B8GGF46
Registered for sale in:	CL, GB

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

Ongoing Costs	0.95
Management fee	0.75
Other costs & charges	0.20
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**

**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.