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 ★★★

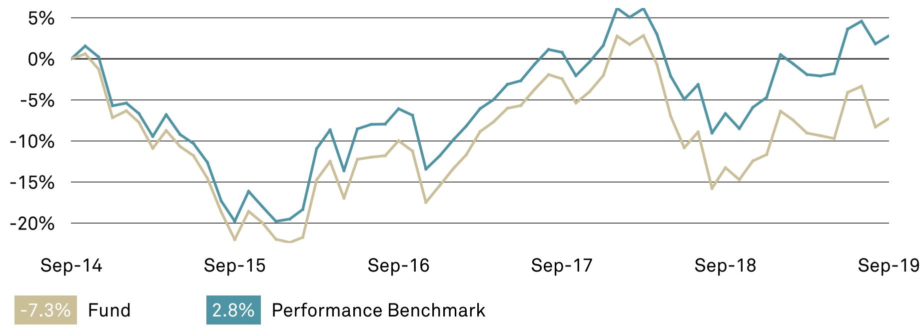
PERFORMANCE NOTE

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, and lagged its comparative index.
- Activity: The Fund continues to seek attractive duration opportunities and add contingent upside exposure to emerging market currencies via options strategies.
- Outlook & Strategy: The outlook for emerging markets remains favourable, in our opinion, given stable fundamental valuations relative to other asset classes and strong technical support in the global search for yield.

5 YEAR CUMULATIVE PERFORMANCE (%)



PERFORMANCE SUMMARY (%)

	1M	3M	YTD	1YR	2YR (Annualised)	3YR (Annualised)	5YR (Annualised)
USD W (Acc.)	1.12	-3.31	4.96	6.90	-2.51	0.99	-1.50
Performance Benchmark	0.96	-0.79	7.86	10.13	0.99	3.06	0.55
Sector	0.80	-2.20	5.61	6.39	-1.47	1.31	-1.11
No. of funds in sector	157	156	145	141	122	110	97
Quartile	2	4	3	3	3	3	3

	2014	2015	2016	2017	2018
Fund	-7.99	-15.94	8.40	15.80	-9.81
Performance Benchmark	-5.72	-14.92	9.94	15.21	-6.21

Source: Lipper as at 30 September 2019. 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

Emerging markets fell during the quarter as persistent trade tensions and volatile oil prices pressured the assets class. China's Caixin manufacturing PMI rose for two months straight and ended at 51.4 in September. This leading indicator has trended just above and below the neutral 50 level over the past few quarters as government stimulus measures have been somewhat negated by the ongoing US-China trade war. In Saudi Arabia, Saudi Aramco suffered a drone attack in September, which forced the kingdom to shut down half of its oil production. Ultimately, this affected 5% of the world's daily oil production.

SURPRISE ELECTION RESULTS IN THE ARGENTINIAN PRIMARY PRESIDENTIAL ELECTIONS LED TO A RAPID REPRICING IN THE CURRENCY AND LOCAL BONDS WHICH WEIGHED ON PERFORMANCE

Commodities lost 3.92% during the quarter as measured by the Thomson Reuters Core Commodity CRB Index. Oil prices rallied 15% immediately following the attack on Saudi Aramco's refining facilities and then rolled back over, ending the month flat as supply came back online faster than expected. The commodity remains volatile over continued worries of an economic growth slowdown and the impact on oil demand resulting from the ongoing trade tensions between the US and China.

Sector returns were down in the third quarter but continue to be significantly positive year-to-date. Local currency rates performed well throughout the quarter as global rates continued to rally amid dovish central banks. Long duration positions in Russia, Thailand and Turkey performed well following central bank rate cuts. On the other hand, emerging market currencies had a difficult quarter with persistent economic headwinds in global trade. Unexpected results in the Argentina primary presidential elections, with results pointing toward the incumbent losing and leading to significant changes in economic policies, led to a selloff in the currency and significant repricing in bonds. The impact of overweight emerging market currencies and Argentina rates was the main driver of underperformance in the third quarter.

ACTIVITY REVIEW

Throughout the quarter, the Fund reduced FX tracking error by aligning outright emerging market currency positions closer to benchmark weight and maintaining short US dollar exposure, given increased probability of tail risks.

OUTRIGHT EMERGING MARKET CURRENCY POSITIONS WERE ALIGNED CLOSER TO BENCHMARK WEIGHT AND CONTINGENT FX EXPOSURE WAS INCREASED

While reducing outright emerging market currency exposure, the Fund increased contingent FX exposure via options structures. The Fund maintains long duration positions as local rates continue to look attractive, with emerging market central banks around the world taking advantage of lower rates, following their developed market peers.

INVESTMENT OUTLOOK AND STRATEGY

As the curtain rises on the fourth quarter, global financial markets remain unsettled. Broad based central bank easing and a modest de-escalation in trade tensions with China have stabilised markets for the time being. However, in our view the relationship between the US and China has undergone a permanent shift, and the economic relationship between the two is unlikely to return to the status quo.

WE BELIEVE THE OUTLOOK FOR EMERGING MARKETS REMAINS FAVOURABLE, GIVEN STABLE FUNDAMENTAL VALUATIONS RELATIVE TO OTHER ASSET CLASSES

Domestically, in our view the US economy will likely remain well supported into the end of the year. Despite financial market volatility and the ongoing recession in global manufacturing, the US labour market remains strong. While the pace of job gains has moderated, a trend we expect to continue, this appears to be as much a function of insufficient labour supply as a deficiency in demand. From a purely economic standpoint, the US is positioned to perform well into the first half of 2020 as the lagged impact of monetary easing flows into the corporate decision making process. The risks to our outlook are primarily geopolitical in nature. While currently subdued, US trade policy toward China can change at any time, potentially shifting the outlook for broad swaths of the fixed income universe. Thus far, the economic impact of US tariffs on Chinese exports has been limited. However, as additional tranches of tariffs are applied, the impact on the US consumer will become increasingly apparent. To date, the Chinese response to US tariffs has been measured. Should they adopt a more belligerent posture, it would be a profoundly negative development for the global economic outlook. Ultimately, we expect Trump's desire to secure a second term to moderate US trade policy. In this environment, we expect the Federal Reserve (Fed) to provide further policy stimulus on an "as needed' basis but expect it will be limited to a single additional 25 basis point rate cut.

In China, we expect modest fiscal and monetary stimulus to engineer a gradual downtrend in the year-on-year rate of growth. As we look into 2020, Chinese policymakers face a challenging constellation of competing priorities. Not only is China trying to engineer a gradual deleveraging of the private sector, it is trying to do so while maintaining currency stability and unenthusiastically participating in a trade war. An important feature of our Chinese economic outlook is policymakers' unwillingness to ease policy aggressively or resort to traditional credit led stimulus. In our view the authorities will act as a backstop to prevent a precipitous drop in economic activity but have very little interest in artificially generating an upward, or even stable, trend in GDP growth. The primary risk to our forecast is an unexpected deterioration in China–US relations. Worryingly, the apparent viability of Huawei as a bargaining chip in the trade conflict has introduced concerns of sovereignty and national security to an ongoing economic conflict.

Looking at emerging markets more broadly, we expect to see a continuation of ongoing policy trends with central bankers and elected officials looking to support their local economies while avoiding unwelcome financial market volatility. With inflation generally muted and an uncertain growth outlook, we believe that, unlike developed market policymakers, emerging market central bankers will be more proactive and forward looking in their delivery of stimulus. While we expect the efficacy of this easing to be limited, it should nevertheless prompt a modest upturn in 2020 emerging market growth. One caveat to this outlook is Asia and, in particular, North Asia. Given their extensive integration into global supply chains and high private sector leverage, we expect the North Asian economies to lag their emerging markets peers and remain largely unresponsive to loosening policy. In aggregate, we believe global growth will accelerate slightly from 2019 to 2020, but the largely stable headline obscures trends downward in developed market growth and a policy-induced acceleration in emerging market growth.

CREDIT QUALITY BREAKDOWN (%)

	Fund
AAA	3.4
AA	0.7
AA-	2.9
A+	0.0
A	8.3
A-	21.1
BBB+	0.0
BBB	29.9
BBB-	19.8
BB	8.5
BB-	3.7
Others	1.7

TOP 10 HOLDINGS (%)

	Fund
South Africa SAGB 7% 02/28/2031	4.5
PETROLEOS MEXICANOS 7.19% 09/12/2024	4.4
Russia RFLB 7.05% 01/19/2028	3.9
Russia RFLB 7% 08/16/2023	3.8
Russia RFLB 8.15% 02/03/2027	3.7
South Africa SAGB 8.75% 02/28/2048	3.5
Brazil BNTNF 10% 01/01/2025	3.5
ZA RSA 10.5% 12/21/2026	3.5
Brazil BNTNF 10% 01/01/2027	3.1
Colombia COLTE 7% 05/04/2022	3.1

Source: BNY Mellon Investment Management EMEA Limited

REGIONAL ALLOCATION (%)

	Fund
Latin America	34.6
Europe	26.2
Asia	21.4
Africa	14.1
Others	3.7

CONTRIBUTION TO DURATION (YEARS)

	Fund	Perf. B'mark
Thailand	0.9	0.7
South Africa	0.9	0.6
Indonesia	0.7	0.6
Russia	0.7	0.4
Colombia	0.4	0.3
Mexico	0.4	0.6
Poland	0.4	0.4
Peru	0.4	0.3
Brazil	0.4	0.3
Others	1.0	1.3

PORTFOLIO CHARACTERISTICS

	Fund	Perf. B'mark
Modified duration	6.2	5.4
Yield to Worst (%)	8.1	5.4
No. of issuers	32	19
Average life	9.1	7.7
Average quality	BBB	BBB
Average Coupon (%)	7.2	6.2
Current yield (%)	7.5	5.9

CURRENCY BREAKDOWN (%)

	Fund	Perf. B'mark
Brazilian Real	10.6	10.0
Polish Zloty	10.5	8.7
Indonesian Rupiah	10.1	10.0
Thai Baht	9.3	9.2
South African Rand	8.6	8.5
Russian Ruble	8.3	8.3
Mexican Peso	8.2	10.2
Colombian Peso	8.1	6.5
Malaysian Ringgit	6.2	6.1
Czech Koruna	5.8	3.8
Chilean Peso	5.0	3.4
Turkish Lira	4.1	4.1
Hungarian Forint	3.5	4.2
US Dollar	3.1	0.0
Others	-1.4	7.0

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)	$ 440.02
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, CHF, JPY
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	0.89
Management fee	0.65
Other costs & charges	0.24
Transaction costs ex ante	0.38

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