# BNY Mellon Multi-Asset Diversified Return Fund

## INVESTMENT MANAGER

NEWTON Investment Management

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

## FUND RATINGS

RSMR FUND RANGE

DYNAMIC PLANNER PROFILED 4

SYNAPTIC RISK RATING 3.5

Ratings should not be used for making an investment decision and do not constitute a recommendation or advice in the selection of a specific investment or class of investments.

## INVESTMENT OBJECTIVE AND PERFORMANCE BENCHMARK

To achieve long-term capital growth over a period of at least 5 years from a portfolio diversified across a range of assets. The Fund is managed to seek a return in excess of cash (1 Month GBP LIBOR) +3% per annum over five years before fees. In doing so, it aims to achieve a positive return on a rolling three year basis (meaning a period of three years, no matter which day you start on). However, a positive return is not guaranteed and a capital loss may occur.

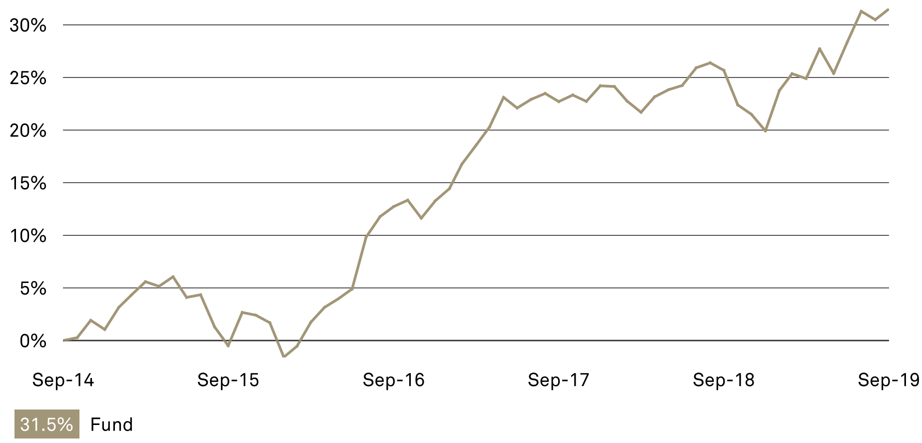
## PERFORMANCE DISCLOSURE

**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.
- Activity: We bought Suzuki Motor and sold our holding in International Flavors & Fragrances.
- Outlook & Strategy: The Fund is cautiously positioned, with a cash weighting close to its all-time high. Alternatives remain in favour and are the Fund's largest allocation.

## 5 YEAR CUMULATIVE PERFORMANCE (%)




## PERFORMANCE SUMMARY (%)

| | | | | | | Annualised | |
|---|---|---|---|---|---|---|---|
| | 1M | 3M | YTD | 1YR | 2YR | 3YR | 5YR |
| Institutional Shares W (Acc.) | 0.78 | 2.45 | 9.65 | 4.64 | 3.52 | 5.27 | 5.63 |

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Fund | 6.39 | 0.63 | 11.40 | 9.65 | -3.45 |

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 Multi-Asset Diversified Return Fund to BNY Mellon Multi-Asset Diversified Return Fund.

**BNY MELLON INVESTMENT MANAGEMENT EMEA LIMITED - CLIENT SERVICES**

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## PERFORMANCE COMMENTARY

The volatility in capital markets that we witnessed in early summer continued into the third quarter of 2019 amid concerns over how the long-running trade dispute between the US and China would play out. A weakening of the Chinese yuan, below the psychologically important 7 renminbi per US-dollar level, which the Chinese administration had historically agreed to protect, heightened concerns regarding the state of China's financial system.

### COMMODITY NICKEL WAS THE STRONGEST CONTRIBUTOR TO RETURNS. WITHIN EQUITIES, US HOUSEBUILDERS PERFORMED STRONGLY AS DID TECHNOLOGY HOLDINGS

This led to bond markets moving higher and yields falling, to the point where 30% of global bonds provided investors with a negative return on a forward-looking basis, and the entire Swiss government bond market out to 50 years offered investors less money in the future for the privilege of lending to it. This is a most unusual situation for investors, and in spite of the bond market pricing in an inverted yield curve, typically signalling an impending recession, most equity markets delivered positive returns.

The Fund delivered a positive return, with alternatives driving the majority of the returns. Within alternatives, the position in the physical commodity nickel was the Fund's strongest contributor. Nickel has benefited from a significant drawdown in inventories. Additionally, the Indonesian government has announced a ban on exports of the ore, reducing the supply of the raw material from January 2020. It is therefore very likely that 2020 and 2021 will be the fifth and sixth years in a row with the nickel market in deficit. This is despite the fact that electric vehicle disruption, which is increasing demand for the commodity, has not started yet. This supports our bullish view on nickel with a five-year investment horizon.

Direct lending company VPC Specialty Lending Investments also contributed after poor performance earlier in the year caused by a well-known investor, with a large holding, exiting their position. Once this was cleared up, the shares rebounded strongly. Underlying performance from the business has also been strong over the last 12 months and we took advantage of the depressed valuation and large forced-seller earlier in the year to add to the position. The company has a wind-up clause in the next 12 months providing an exit opportunity at closer to net asset value, which the shares have been trading at a significant discount to. Infrastructure also contributed positively, with both International Public Partnerships and BBGI performing well. Renewables were more subdued, given their strong performance earlier in the year, but still made a positive contribution.

Within equities, the Fund's holdings in US housebuilders performed strongly with increased demand for new housing on the back of lower financing costs and a lack of house ownership in the millennial cohort. The technology sector also performed well, as Apple rebounded. The Fund's holdings in the semiconductor sector, a beneficiary of the move towards electric vehicles, made gains. Emerging markets were somewhat mixed. There was some strong positive performance from furniture manufacturer Man Wah, which has started moving production for the US market from China to Vietnam to get around the trade tariffs. However, this was offset by negative performance from one of the Fund's largest holdings, Asian insurer AIA, which is seeing disruption to demand for its life and healthcare insurance products in Hong Kong on account of the continuing protests.

Bond markets were less of a contributor to performance, as the Fund has limited exposure to the asset class given our negative view on longer term prospective returns. We maintain the view that, over the longer term, the allocation to stable operational real assets, such as renewables, is likely to serve our investors better, with the potential for an attractive return and strong diversification benefits versus both equities and bonds.

## ACTIVITY REVIEW

We initiated a position in Star Entertainment in Australia, which owns The Star casino in Sydney. With its long concessions, the company is a major beneficiary of long-term immigration to Australia from Asia, and the growing number of tourists travelling to Australia from Asia.

### WE PURCHASED SUZUKI MOTOR AND SOLD FOOD INGREDIENTS BUSINESS FLAVORS & FRAGRANCES ON NEGATIVE NEWS AROUND ITS FRUTAROM ACQUISITION

We used share price weakness to purchase Suzuki Motor. The main attraction is the company's exposure to India through its stake in Maruti Suzuki, which has an unusually dominant, and we think defendable, market share. Although recent macroeconomic weakness in India has weighed on the stock, our belief in the country's long-term fundamentals underpins our conviction in the stock. Vehicle ownership is very low in India, providing the potential for many years of growth in the future. Suzuki's focus on smaller vehicles also leaves it relatively well placed to deal with tighter rules relating to carbon emissions, and a partnership with Toyota will harness the company's technology.

We sold Italian infrastructure stock Atlantia after a recovery in the share price following the collapse of Genoa's Morandi bridge last year. Substantial political risk remains if Italy's government makes good on threats to strip Atlantia's toll-road operator, Autostrade per l'Italia, of its concession to run Italy's roads.

We sold food ingredients business International Flavors & Fragrances on the disappointing news that management had found irregularities at its recent acquisition Frutarom.

## INVESTMENT STRATEGY AND OUTLOOK

It is too early to know if the US Federal Reserve's recent interest rate cuts will have a material impact on the economic outlook. If global economic momentum continues to slow as we expect, and trade war tensions between the US and China escalate, equity markets will face strong headwinds.

### THE FUND IS CAUTIOUSLY POSITIONED WITH A HIGH CASH WEIGHTING. ALTERNATIVES REMAIN IN FAVOUR AND ARE THE FUND'S LARGEST ALLOCATION

Arguably, the outlook for bonds is worse. Yields have fallen and the value of bonds with negative yields, which guarantee buyers a loss if they hold the bond to maturity, has risen. We view the growth of negative yielding debt, a disquieting feature of the post-financial crisis landscape, as a distress signal of sorts. Conversely, we are positive on the outlook for alternatives as we see many companies with sustainable, stable cash flows which are not dependent on economic growth.

Against this backdrop the Fund is cautiously positioned, with a cash weighting close to its all-time high. Alternatives remain in favour and are the largest allocation. However, we also own attractive areas, such as music royalties, which offer the prospect of stable income, with little sensitivity to the economic cycle, as well as capital growth. Valuations have been depressed, owing to the impact of music piracy, but as the growth of streaming services, such as Spotify, makes music more accessible to consumers, we believe the industry could once again return to growth and see valuations expand.

Equities and bonds remain a smaller part of the Fund. However, the Fund also holds call options, a low cost way of capturing asymmetric exposure to risk assets. While many may view a low allocation to bonds as a risk, our view is that the possibility of fiscal spending represents a threat to the bond market.

Our focus remains on opportunities that provide stable return streams with less sensitivity to the economic cycle, while also benefiting from strong thematic support. Our 'earth matters' theme flags growing investment in green technology. As environmental policy places greater restrictions on high-emission vehicles, we believe electric vehicles (EVs) could proliferate. The Fund has a holding in a company which manufactures batteries for EVs, so should be a theme beneficiary. At the same time, rising global environmental concerns are driving increased demand for renewable energy. Renewable energy assets are an important part of the Fund, which has holdings in wind and solar power operators in the US, UK, and Europe.

## TOP 10 HOLDINGS (%)

| | Fund |
|---|---|
| Pershing Square Holdings Ltd | 2.4 |
| Hipgnosis Songs Fund Ltd | 2.4 |
| Greencoat UK Wind PLC | 2.3 |
| The Renewables Infra Group Ltd | 2.1 |
| BBGI SICAV SA | 2.0 |
| ETFS Commodity Securities | 1.9 |
| Intl Public Partnership Ltd | 1.9 |
| Jlen Environmental Assets Grp | 1.9 |
| Tufton Oceanic Assets Ltd | 1.7 |
| Mexico (United Mexican States) 8% Bds 07/11/2047 | 1.5 |

Source: BNY Mellon Investment Management EMEA Limited

## EQUITY INDUSTRIAL ALLOCATION (%)

| | Fund |
|---|---|
| Consumer Goods | 5.74 |
| Industrials | 4.67 |
| Consumer Services | 4.48 |
| Financials | 4.46 |
| Technology | 2.49 |
| Health Care | 1.50 |
| Basic Materials | 1.46 |
| Oil & Gas | 0.87 |
| Telecommunications | 0.44 |

## SECTOR ALLOCATION (%)

| | Fund |
|---|---|
| Equities | 26.12 |
| Government Bonds | 14.30 |
| Renewables | 8.81 |
| Emerging Market Bonds | 5.13 |
| Infrastructure | 4.90 |
| Asset Financing | 3.89 |
| Corporate Bonds | 3.88 |
| Commodities | 3.82 |
| Hedge Funds | 3.12 |
| Royalties | 2.41 |
| Sub Investment Grade Bonds | 2.05 |
| Energy Storage | 1.38 |
| Property | 1.32 |
| Economic Infrastructure | 1.27 |
| Direct Lending | 1.25 |
| Index Linked | 0.87 |
| CLO Equity | 0.63 |
| Private Equity | 0.56 |
| Convertible Bonds | 0.33 |
| Currency Hedging | 0.06 |
| Derivative Instruments | 0.02 |
| Cash | 13.87 |

**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 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".

### GENERAL INFORMATION

| | |
|---|---|
| Total net assets (million) | £ 292.73 |
| Historic yield (%) | 1.77 |
| IA Sector | Targeted Absolute Return |
| Performance Benchmark | Cash (1mth GBP LIBOR) +3% |
| Fund type | ICVC |
| Fund domicile | UK |
| Fund manager | Paul Flood |
| Alternate | Bhavin Shah |
| Base currency | GBP |
| Fund launch | 27 Nov 2006 |
| Distribution dates | 28 Feb, 31 Aug |

### DEALING

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

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

| | |
|---|---|
| Inception date | 05 Sep 2012 |
| Min. initial investment | £ 10,000,000 |
| ISIN | GB00B81C8395 |
| Bloomberg | NPMUAWA |
| Sedol | B81C839 |
| Registered for sale in: | GB |

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

| | |
|---|---|
| Ongoing Costs | 0.71 |
| Management fee | 0.63 |
| Other costs & charges | 0.09 |
| Transaction costs ex ante | 0.00 |

Source: BNY Mellon Investment Management EMEA Limited

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

**The fund can invest more than 35% of net assets in different Transferable Securities and Money Market Instruments issued or guaranteed by any EEA State, its local authorities, a third country or public international bodies of which one or more EEA States are members.**

### IMPORTANT INFORMATION



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