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. Mellon was formed on 31 January 2018, through the merger of The Boston Company and Standish into Mellon Capital. Effective 2 January 2019, the combined firm was renamed Mellon Investments Corporation.

FUND RATINGS

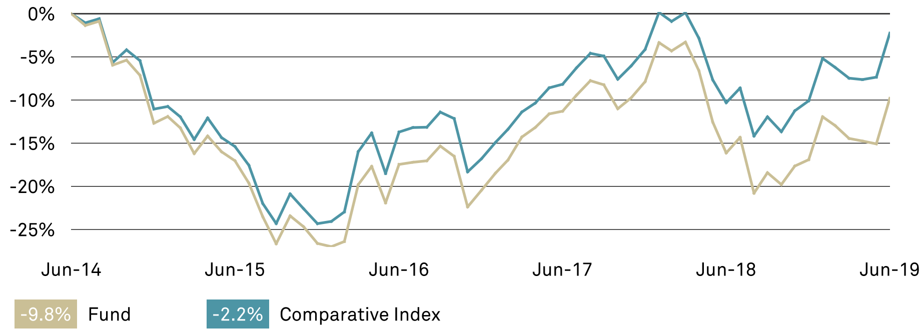
PERFORMANCE NOTE

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 produced a positive return over the quarter, net of fees, but lagged its comparative index.
- Activity: We reduced our shorts in the Hungarian forint and the Philippine piso and built longs in the Russian rouble and South African rand.
- Outlook & Strategy: We believe the global risk environment will remain unsettled and US growth could soften.

5 YEAR CUMULATIVE PERFORMANCE (%)



PERFORMANCE SUMMARY (%)

					Annualised		
	1M	3M	YTD	1YR	2YR	3YR	5YR
USD W (Acc.)	6.21	5.43	8.56	7.54	0.84	3.00	-2.04
Comparative Index	5.51	5.64	8.72	8.99	3.18	4.24	-0.45
Sector	5.12	4.70	8.00	6.58	1.36	2.89	-1.89
No. of funds in sector	154	151	147	140	122	112	94
Quartile	1	2	2	2	3	2	3

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

Source: Lipper as at 30 June 2019. Fund performance USD W 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 Market local currency debt, as an asset class, performed exceptionally well in the second quarter of the year thanks to a strong June. However, the Fund lagged its comparative index over the period, mostly due to local currency positioning.

POSITIONING IN ARGENTINA DETRACTED FROM PERFORMANCE, WHILE YIELD CURVE ALLOCATION IN BRAZIL CONTRIBUTED

The bulk of the underperformance was due to our positioning in Argentina, mostly due to an overweight in currency. Also detracting from the Fund's performance was our underweight to rates and currency positioning in Mexico.

In local rates allocation, our yield curve allocation in Brazil, plus our overweight in both Russia and Indonesia were the main drivers of performance for the period. In currency positioning, our overweights in the Brazilian real and the Russian rouble were also beneficial.

ACTIVITY REVIEW

During the second quarter, ex ante tracking error remained at close to 165 basis points. We increased our short US dollar position contingently using options. Specifically, we decided to introduce more Risk Reversals structures to our portfolio to reduce our shorts in the Hungarian forint and the Philippine piso and to build longs in the Russian rouble and the South African Rand.

WE REDUCED OUR SHORTS IN THE HUNGARIAN FORINT AND THE PHILIPPINE PISO AND BUILT LONGS IN THE RUSSIAN ROUBLE AND THE SOUTH AFRICAN RAND

We also built a duration overweight position in Peru by participating in the 2034s New Soberano issuance, funded by increasing our underweight in Hungary. We believe real rates in Peru are attractive as central banks globally provide further accommodation. In Hungary, on the other hand, we believe real rates are expensive, and we expect the curve to steepen.

INVESTMENT STRATEGY AND OUTLOOK

Going forward, we believe the global risk environment will remain unsettled. While June's easing of tension between the US and China removed one near-term risk, little progress has been made to resolve the structural points of contention. In our view, in the US, growth could soften over the rest of the year before converging to trend in the fourth quarter.

WE BELIEVE THE GLOBAL RISK ENVIRONMENT WILL REMAIN UNSETTLED AND U.S. GROWTH COULD SOFTEN

This softening in growth, combined with persistently low inflation outcomes, could see the US Federal Reserve (the Fed) providing a modest amount of further stimulus in the next six to nine months. Between now and year-end, we expect at least a 25 basis point reduction to the federal funds rate. It is important to note the anticipated easing is significantly less than the amount implied by market pricing, signaling that financial markets will likely be underwhelmed by 25 basis points of cuts.

Even if the Fed eases aggressively with a 50 basis point cut, the total easing delivered is unlikely to match the amount implied by market pricing. We believe the risks to the US outlook are primarily on the downside. Forward-looking indicators of the labour market suggest second-half weakness, and recent data on economic activity suggests a step down from the first quarter to the second. Notably, the New York, Dallas and Kansas City regional manufacturing surveys have all dropped precipitously. As the US economy slows, and the twin deficits creep higher, we expect the dollar to trend weaker against the more defensive euro and yen. We believe performance of the dollar against more cyclical currencies will likely be driven by more idiosyncratic factors. In our view all else being equal, the anticipated depreciation of the dollar should provide a tailwind to US inflation as the local price of imported goods rises.

In other developed markets, we expect data to remain frustratingly soft and for central bank policy to remain accommodative. In Europe, the recently announced targeted longer-term refinancing options (TLTRO) could be supplemented by modest cuts to the deposit interest rate and, potentially, an expansion of the asset purchase program. Additionally, the third quarter should see the announcement of Mario Draghi's successor. As of yet, there is no clear front runner, but all plausible candidates are at least modestly more hawkish than the outgoing president. We believe while the leadership change is unlikely to meaningfully impact the trajectory of European Central Bank (ECB) policy over the next six to nine months, the choice of chair designate will have significant impact into 2020 as inflation trends back toward goal in an environment of lacklustre growth.

In Japan, the Bank of Japan (BOJ) is increasingly between a rock and a hard place. Ongoing trade tension between the US and China is depressing regional economic activity. Unfortunately, it is doing so at a time when the BOJ is approaching the limits of its current policy framework, and inflation remains stubbornly below target. We believe a key downside risk to the Japanese economic outlook is a rapid appreciation of the yen associated with a disorderly deterioration in global financial markets. Such an appreciation could put unwanted downward pressure on inflation and reduce the competitiveness of the Japanese export sector.

Lastly, in the UK, Boris Johnson may be elected Prime Minister on the strength of his vow to exit the European Union (EU) by October 31, 2019 with or without a treaty in place. We believe EU policy makers are unlikely to reopen treaty negotiations and, at this point, a disorderly exit at the end of the third quarter has become our base case. The situation remains highly fluid and our expected outcome is subject to considerable uncertainty.

In emerging markets, we expect growth to trend roughly sideways and for inflation to generally trend down. While it is difficult to make generalisations about such a heterogeneous universe, negative output gaps are prevalent and local demand weak. We believe these two points, combined with uncertainty radiating from the US and China, suggest that emerging markets policy makers will have both the ability and inclination to err on the side of caution and loosen monetary policy modestly.

It is difficult to discuss the outlook for emerging markets without discussing the outlook for China, and it is difficult to discuss the outlook for China without discussing the outlook for trade. Broadly speaking, we expect periodic bouts of uncertainty and escalation as the US and China work toward a new framework for their bilateral economic relationship. Ultimately, however, we believe both US and Chinese policy makers have significant incentive to avoid an uncontrolled escalation in the conflict and will work to de-escalate tension as the economic costs of the confrontation rise.

CREDIT QUALITY BREAKDOWN (%)

	Fund
AAA	2.9
AA	1.5
AA-	3.4
A+	0.0
A	7.6
A-	19.0
BBB+	0.0
BBB	31.4
BBB-	16.9
BB+	3.5
BB	7.8
Others	6.1

TOP 10 HOLDINGS (%)

	Fund
PETROLEOS MEXICANOS 7.19% 09/12/2024	4.5
South Africa SAGB 7% 02/28/2031	4.3
Russia RFLB 7.05% 01/19/2028	4.0
ZA RSA 10.5% 12/21/2026	4.0
Russia RFLB 7% 08/16/2023	3.5
Russia RFLB 8.15% 02/03/2027	3.4
Brazil BNTNF 10% 01/01/2025	3.4
Thailand THGB 4.875% 06/22/2029	3.0
South Africa 8.75% 02/28/2048	3.0
Colombia COLTE 7% 05/04/2022	2.5

Source: BNY Mellon Investment Management EMEA Limited

REGIONAL ALLOCATION (%)

	Fund
Latin America	37.7
Europe	27.3
Asia	19.0
Africa	13.3
Others	2.7

CONTRIBUTION TO DURATION (YEARS)

	Fund	B'mark
South Africa	0.8	0.6
Thailand	0.8	0.7
Indonesia	0.7	0.6
Russia	0.6	0.4
Peru	0.4	0.3
Poland	0.4	0.4
Colombia	0.4	0.3
Mexico	0.3	0.6
Brazil	0.3	0.3
Others	1.0	1.3

PORTFOLIO CHARACTERISTICS

	Fund	B'mark
Modified duration	5.9	5.3
Yield to Worst (%)	9.4	5.8
No. of issuers	32	19
Average life	8.6	7.7
Average quality	BBB-	BBB
Average Coupon (%)	8.2	6.1
Current yield (%)	8.2	6.0

CURRENCY BREAKDOWN (%)

	Fund	B'mark
Brazilian Real	12.5	9.9
Indonesian Rupiah	10.1	9.9
Polish Zloty	8.9	8.9
South African Rand	8.8	8.5
Thai Baht	8.7	8.6
Mexican Peso	8.6	10.1
Russian Ruble	8.1	8.0
Colombian Peso	8.1	7.2
Czech Koruna	8.1	4.4
Chilean Peso	5.0	3.5
Malaysian Ringgit	4.2	6.0
Turkish Lira	3.8	4.0
US Dollar	2.7	0.0
Argentine Peso	2.2	0.4
Others	0.2	10.7

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)	$ 597.18
Comparative Index / 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	0.44

Source: BNY Mellon Investment Management EMEA Limited

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

The fund can invest 35% of net assets in different Transferable Securities and Money Market Instruments issued or guaranteed by any EU Member State, its local authorities, non-EU Member States or public international bodies of which one or more EU Member States are members.

IMPORTANT INFORMATION

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