

BNY Mellon European Credit Fund

INVESTMENT MANAGER



Insight are leaders in absolute return investing, multi-asset, specialist equity solutions, fixed income and liability driven investment.

FUND RATINGS



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PERFORMANCE BENCHMARK

The Fund will measure its performance against the Markit iBoxx Euro Corporates TR Index (the "Benchmark").

The Fund is actively managed, which means the Investment Manager has discretion to invest outside the Benchmark subject to the investment objective and policies disclosed in the Prospectus. However, as the Benchmark covers a significant proportion of the investable universe, the majority of the Sub-Fund's holdings will be constituents of the Benchmark and the weightings in the portfolio may be similar to those of the Benchmark. The investment strategy will restrict the extent to which the portfolio holdings may deviate from the Benchmark and consequently the extent to which the Sub-Fund can outperform the Benchmark.

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.

Please refer to the prospectus and the KIID before making any investment decisions. Documents are available in English and an official language of the jurisdictions in which the Fund is registered for public sale. Go to www.bnymellonim.com. For a full list of risks applicable to this fund, please refer to the Prospectus or other offering documents.

QUARTERLY HIGHLIGHTS

- **Performance:** The Fund generated a negative return, net of fees, during the quarter. It lagged its benchmark.
- **Activity:** We remained active, but selective, in the new issue market.
- **Outlook & Strategy:** Given rising inflation, central banks in the US, UK and, potentially, Europe are set to continue tightening monetary policy.

5 YEAR CUMULATIVE PERFORMANCE (%)



PERFORMANCE SUMMARY (%)

	1M	3M	YTD	1YR	Annualised		
					2YR	3YR	5YR
Euro C (Acc.)	0.14	-0.81	-0.16	-0.16	1.33	3.05	2.10
Performance Benchmark	-0.11	-0.68	-1.08	-1.08	0.81	2.60	1.77
Sector	0.02	-0.77	-0.82	-0.82	0.66	2.49	1.53
No. of funds in sector	164	162	148	148	138	123	101
Quartile	1	2	1	1	1	1	1

	2017	2018	2019	2020	2021
Fund	3.31	-1.85	6.60	2.84	-0.16
Performance Benchmark	2.37	-1.29	6.29	2.73	-1.08

Source: Lipper as at 31 December 2021. Fund performance Euro C (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. Returns may increase or decrease as a result of currency fluctuations.

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PERFORMANCE COMMENTARY

At the start of the quarter, concerns surrounding the spread of the Delta variant of Covid-19, along with accommodative monetary policy from the major central banks (which argued that rising inflation would be transitory), supported government bonds in both the US and Europe.

OUR CREDIT STRATEGY DETRACTED FROM PERFORMANCE DURING THE QUARTER BUT SECURITY SELECTION ADDED VALUE

However, as ongoing supply issues and increasing energy prices led to concerns that inflation would continue to trend upwards and prove more persistent, both the US Federal Reserve (Fed) and European Central Bank (ECB) turned more hawkish. With the Fed now tapering its asset purchases and looking likely to hike rates before long, and the ECB also slowing the pace of its asset purchases, bond yields spiked higher towards year end to end the quarter flat. Corporate bonds were mainly driven by the move in government bond yields over the period, with spreads largely unchanged; high yield bonds continued to outperform their investment grade counterparts given the former's lower duration risk and investors' search for yield in a low interest rate environment.

In October, sovereign bond markets had a turbulent month as investors weighed persistent inflation concerns and a hawkish pivot by global central banks (with an increased willingness to raise rates earlier than expected to combat rising prices that were previously considered transitory). Sovereign bond yields moved higher in both Europe and the US, with Gilts outperforming. Yield curves in the US, UK and Europe flattened as markets began pricing in some monetary policy tightening despite an uncertain global growth outlook. In credit markets, spreads widened modestly, with Europe underperforming. European investment grade bonds had a negative total return; real estate investment trusts and subordinated banks underperformed but cyclical sectors such as automobiles and energy outperformed.

During November, a wave of uncertainty swept across global markets as the emergence of the Omicron variant of Covid-19 added to concerns about high inflation and a premature lifting of ultra-loose monetary policies. Sovereign bond yields fell sharply, and equities sold off. In credit markets, spreads widened, with Europe underperforming. European investment grade bonds had a positive total return as Bund yields fell; food & beverage and health care outperformed but airlines and Tier 1 insurance underperformed.

In December, concerns about inflation persisted with several central banks taking a hawkish policy position. Most notably, the Fed announced it will accelerate the pace at which it tapers asset purchases, as well as the timeline for future rate hikes, while the Bank of England surprisingly increased interest rates. Developed market sovereign bond yields rose but equities ended broadly higher. European investment grade bonds outperformed those in the US and UK, as life insurance, wireline communications and real estate investment trusts outperformed but transportation, banking and property & casualty insurance underperformed.

We maintained a long credit risk position on the expectation that above trend growth and solid credit fundamentals would enable a further narrowing of credit spreads. As credit spreads widened over October and November this was negative for performance. However, this was partially offset by a positive effect from a tightening of spreads in December.

Our sector positioning was negative in October thanks to overweight positions in asset-backed securities, property and banks but the underweight in utilities and overweight in autos were positives. Our sector strategy was a small positive in November as overweight positions in insurance, tobacco and property were beneficial.

Duration was a slight negative factor as we maintained our modest short duration position in the expectation yields would rise further. A decline in government bond yields in November outweighed small positives because of a rise in yields during both October and December.

Security selection was the main positive contributor (with the benefit coming largely in November) with notable contributions from industrial company General Electric, insurer Fidelidade, special purpose vehicle Roadster Finance and Bank of Cyprus.

ACTIVITY REVIEW

The Fund remains defensively positioned in credit and has minimal exposure to non-euro (US dollar and sterling) credit.

WE REMAINED ACTIVE, BUT SELECTIVE, IN THE NEW ISSUE MARKET

We participated in a number of new issues over the quarter. These included Heimstaden (property), Kutxabank, Iccrea Bank, and Thermo Fisher (healthcare equipment). In December, we trimmed positions in names we expect to come to the market in January.

INVESTMENT STRATEGY AND OUTLOOK

Despite the improvement in the global economy on the back of mass vaccination programmes and sizeable monetary and fiscal stimulus, there remains uncertainty about future events. In particular, rising inflation needs to be carefully monitored given a continuation of recent trends is likely to lead to central banks hiking interest rates and/or scaling back their asset purchase programmes. The ongoing pandemic and concerns about the Chinese economy (particularly given credit concerns in the property sector), are also clouding the economic outlook.

MONETARY TIGHTENING FROM THE MAJOR CENTRAL BANKS NOW APPEARS IMMINENT

US inflation remains elevated, driven by supply-chain issues. Our central case is that inflation will not have been above 2% for long enough for rates to be raised until late 2022 or early 2023 and we expect tapering to be completed by the middle of next year. Given this backdrop, longer-term rates could remain low.

In the eurozone, inflation remains a key risk along with the impact of the new Covid-19 strain on global demand due to the eurozone's reliance on exports. Given a weak medium-term inflation outlook, monetary policy could remain accommodative. However, inflation risks are clearly to the upside, which could prove problematic for the ECB.

There are short-term growth risks in China given the ongoing issues in the property sector. Also, global demand shifting back towards services from goods is a headwind for exports. However, we believe local government spending is likely to increase in the second half, which could offset some of these headwinds.

CREDIT QUALITY BREAKDOWN (%)

	Fund	Perf. B'mark
AAA	0.0	0.6
AA	2.4	11.8
A	31.8	45.8
BBB	55.0	41.8
BB & below	5.0	0.0
BNY EM Corporate Fund	1.1	0.0
Insight Short Dated HY Fund	2.5	0.0
Credit indices	-10.5	0.0
Cash*	12.9	0.0

Breakdown includes Futures
*includes unsettled trades, Forward FX & derivatives off-set

TOP 10 ISSUERS (%)

	Fund
Credit Suisse	1.9
Banco de Valencia	1.8
Goldman Sachs	1.7
BP	1.5
Total Se	1.5
At&t Inc	1.5
General Motors	1.5
BPCE	1.5
Blackstone Property Partners Europe Holdings Sarl	1.4
Morgan Stanley	1.4

Source: BNY Mellon Investment Management EMEA Limited

MATURITY DISTRIBUTION (%)

Years	Fund	Perf. B'mark
0-1 yr	7.6	0.0
1-3 yrs	17.9	24.4
3-5 yrs	30.4	26.7
5-7 yrs	21.5	21.2
7-10 yrs	11.8	16.9
10-15 yrs	8.5	7.5
15-25 yrs	1.8	2.7
25+ yrs	0.5	0.6

Breakdown includes Futures

SECTOR BREAKDOWN (%)

	Fund	Perf. B'mark
Financials	35.5	34.3
Corporate Cyclicals	32.6	30.3
Corporate Non-Cyclicals	25.0	34.9
Insight Short Dated HY Fund	2.5	0.0
BNY EM Corporate Fund	1.1	0.0
ABS	1.0	0.0
Supranationals	0.0	0.6
Credit Indices	-10.5	0.0
Cash and other*	12.9	0.0

Breakdown includes Futures
*includes unsettled trades, Forward FX & derivatives off-set

PORTFOLIO CHARACTERISTICS

	Fund	Perf. B'mark
Spread duration (years)	6.85	5.63
Duration (years)	4.75	5.38
Yield to Maturity (%)	0.89	0.50
Number of Issuers	144	681
Average maturity (years)	5.1	5.7
Average quality	A-	A-
Average Coupon (%)	1.5	1.4

COUNTRY BREAKDOWN (%)

	Fund	Perf. B'mark
United States	21.2	19.8
United Kingdom	15.7	8.0
France	13.5	20.9
Germany	9.9	14.8
Spain	7.2	5.5
Netherlands	4.4	5.7
Ireland	4.1	0.9
Italy	4.0	4.8
Insight Short Dated HY Fund	2.5	0.0
BNY EM Corporate Fund	1.1	0.0
Credit Indices	-10.5	0.0
Cash & Other*	27.1	19.6

Breakdown includes Futures
*includes unsettled trades, Forward FX & derivatives off-set

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.
- 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 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 generate a total return comprised of income and capital growth by investing primarily in a broad range of Euro-denominated debt and debt-related investments and in financial derivative instruments relating to such investments.

GENERAL INFORMATION

Total net assets (million)	€ 40.74
Performance Benchmark	Markit iBoxx Euro Corporates TR
Lipper sector	Lipper Global - Bond EUR Corporates
Fund type	ICVC
Fund domicile	Ireland
Fund manager	Lucy Speake / Bonnie Abdul-Aziz
Base currency	EUR
Currencies available	EUR
Fund launch	12 Feb 2013

DEALING

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

EURO C (ACC.) SHARE CLASS DETAILS

Inception date	12 Feb 2013
Min. initial investment	€ 5,000,000
Max. initial charge	5.00%
ISIN	IE00B5SGRP88
Registered for sale in:	AT, BE, CH, CO, DE, DK, ES, FI, FR, GB, GG, IE, IL, IT, JE, LU, NL, NO, PE, PT, SE, SG, UY

EURO C (ACC.) COSTS AND CHARGES (%)

Ongoing Costs	0.64
Management fee	0.50
Other costs & charges	0.14
Transaction costs ex ante	0.09

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 and, in Switzerland, for Qualified Investors 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. 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. Investment Managers are appointed by BNY Mellon Investment Management EMEA Limited (BNYMIM EMEA), BNY Mellon Fund Managers Limited (BNYMFM), BNY Mellon Fund Management (Luxembourg) S.A. (BNY MFML) or affiliated fund operating companies to undertake portfolio management activities in relation to contracts for products and services entered into by clients with BNYMIM EMEA, BNY MFML or the BNY Mellon funds. 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