

# BNY Mellon Inflation-Linked Corporate Bond Fund

## INVESTMENT MANAGER



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

## PERFORMANCE BENCHMARK

The Fund will measure its performance against the UK Investment Association Sterling Strategic Bond NR Sector average as a comparator benchmark (the "Benchmark"). The Fund will use the Benchmark as an appropriate comparator as, although not representative of inflation-linked corporate bond funds specifically, it represents a broad range of sterling-denominated bond funds that invest in corporate bonds, government bonds and derivatives.

The Fund is actively managed, which means the Investment Manager has discretion over the selection of investments, subject to the investment objective and policies disclosed in the Prospectus.

## PERFORMANCE DISCLOSURE

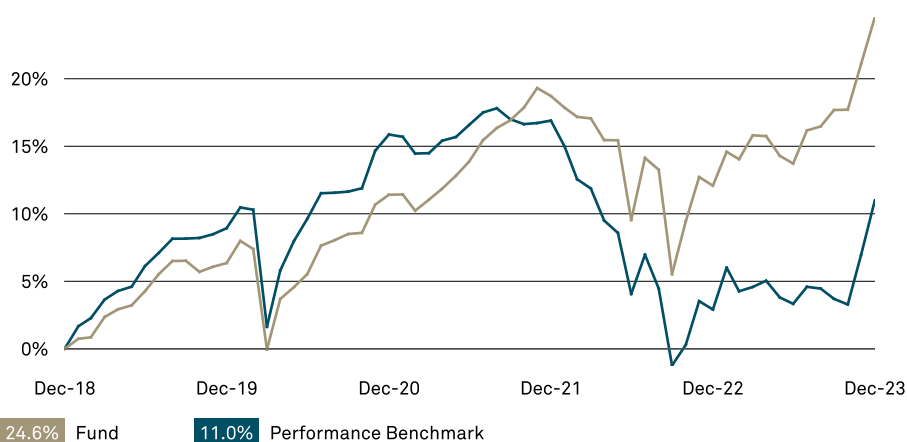
Past performance is not a guide to future performance. The value of investments can fall. Investors may not get back the amount invested. Income from investments may vary and is not guaranteed.

Please refer to the prospectus and the KID/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](http://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 positive return, net of fees, during the quarter.
- Activity: The Fund's duration was reduced.
- Outlook & Strategy: We prefer shorter-dated over longer-dated maturities.

## 5 YEAR CUMULATIVE PERFORMANCE (%)



## PERFORMANCE SUMMARY (%)

	Annualised						
	1M	3M	YTD	1YR	2YR	3YR	5YR
Institutional Shares W (Acc.)	2.86	5.84	11.13	11.13	2.43	3.79	4.49
Performance Benchmark	3.78	7.03	7.86	7.86	-2.56	-1.42	2.11
No. of funds in sector	89	89	87	87	84	81	70
Quartile	4	3	1	1	1	1	1
	2019	2020	2021	2022	2023		
Fund	6.35	4.76	6.56	-5.59	11.13		
Performance Benchmark	8.93	6.37	0.89	-11.97	7.86		

Source for all performance: Lipper as at 31 December 2023. 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.

## BNY MELLON INVESTMENT MANAGEMENT EMEA LIMITED - CLIENT SERVICES

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## PERFORMANCE COMMENTARY

Both government and credit bond markets recovered over the quarter to end the year significantly ahead.

### THE FUND'S DURATION POSITIONING WAS THE BIGGEST CONTRIBUTOR TO PERFORMANCE

It was a quarter of two halves, with 2023 ending on a material shift in risk appetite as rate expectations fell on hopes the global tightening cycle had ended, and that lower inflation and moderating activity would pave the way for rate cuts in 2024.

In October, markets reacted to elevated geopolitical risk in the Middle East. Oil prices rose sharply, while market-based measures of inflation expectations climbed higher.

US Treasury yields rose for the sixth consecutive month, breaking through 5% at one point, the first time since 2007. By contrast, European government bond yields fell as weak growth and inflation data pointed to the European Central Bank having to reduce interest rates earlier than expected. Investment grade credit yield spreads widened along with broader risk markets.

Government bond markets, however, rallied in November. With the US Federal Reserve (Fed) referencing tighter financial conditions allied with weaker-than-expected inflation data, investors reassessed their outlook for official rates. Weaker-than-expected European inflation data added further support, and 10-year US Treasuries fell 60 basis points. Significant falls were also seen in European and UK government bond markets. Weaker inflation data weighed on inflation markets and expectations of future inflation declined materially. Investment grade credit yields tightened in November, mirroring the strong performance in broader risk markets.

In December, the Fed's own expectations for future interest rates surprised investors as it signalled 75 basis points of rate cuts in 2024. This led to optimism that the US economy would achieve a soft landing, with inflation falling back to target without recession. The UK was the exception, as the Bank of England (BoE) continued to push back on expectations of an early rate cut in an attempt to rebuild its inflation-fighting credentials.

Weakness in energy markets, especially European natural gas, weighed on investor expectations for future inflation. UK and European inflation pricing continued to decline. Meanwhile, investment grade credit spreads continued to tighten in December.

In terms of performance, the Fund's duration positioning was the biggest contributor over the quarter. Credit strategy also benefitted returns. Conversely, our inflation positioning detracted.

## ACTIVITY REVIEW

UK inflation expectations changed during the quarter.

### WE REDUCED THE FUND'S DURATION THROUGH OUR UK EXPOSURE

The Fund's duration was increased in October through UK long-dated bonds as these yields reached 5%. We established a short position in Canadian government bonds in favour of US Treasuries as the yield spread between them widened to historical levels.

As a result of November and December's falling government bond yields, we reduced the Fund's duration, focusing on the UK market. We ended the year with duration at 4.7 years.

The Fund's cross-market positions remained unchanged: short Canadian and German government bonds, and long US Treasuries.

The Fund's level of inflation protection was increased in November and December to take advantage of the ongoing fall in UK inflation expectations.

We increased credit risk in October, taking advantage of spreads widening by switching out of short-dated bonds into longer maturity bonds of the same or similar issuer. By contrast, we reduced risk in November, selling bank debt that had benefitted from strong credit spread performance. However, in December, we again added credit risk as the positive momentum for risk assets continued. Unusually, the Fund did not participate in any primary issuance during the month as there were no new issues that suited.

The Fund's credit sector allocation was little changed by quarter end, with non-cyclicals the biggest change (23.1%) up from 20.2%; financials (33.0%) down from 33.8%; cyclicals (15.3%); securitised (6.9%) and asset-backed securities (0.4%).

## INVESTMENT STRATEGY AND OUTLOOK

**UK inflation valuations remain rich given market concerns that the BoE is not as committed to hitting its inflation target as other central banks.**

### WE ARE SLIGHTLY POSITIVE ON STERLING AND EURO INVESTMENT GRADE CREDIT

Our preference is for shorter-dated over longer-dated maturities. The latter is expected to decline further given reduced demand from pension schemes, which are now better hedged.

Meanwhile, we believe valuations in sterling and euro investment grade credit remain attractive compared with US dollars. We have a neutral valuation score based on global yield spread levels, but a small positive from our momentum indicator.

**CREDIT QUALITY BREAKDOWN (%)**

	Long	Short
Govt/Swaps	146.0	-140.0
AA	0.2	0.0
A	21.3	0.0
BBB	51.1	0.0
<BBB	6.1	0.0

**MATURITY DISTRIBUTION (%)**

Years	Long	Short
0 - 5 Years	123.9	-105.3
5 - 10 Years	54.5	-15.2
10 - 15 Years	18.5	0.0
15-25 Years	12.4	-4.0
25 Years +	15.7	-15.4

Source: BNY Mellon Investment Management EMEA Limited

Portfolio holdings are subject to change, for information only and are not investment recommendations.

**ASSET ALLOCATION (%)**

	Long	Short
Govt/Swaps	146.0	-140.0
Investment Grade Financials	30.2	0.0
Investment Grade Non-Financials	42.1	0.0
High Yield	6.1	0.0
Asset Backed Securities	0.4	0.0

**TOP 10 ISSUERS (%)**

	Fund
UBS	2.9
Barclays	2.3
Electricite de France	2.2
National Grid Electricity	1.7
Heathrow Funding Ltd	1.7
London Power Network	1.7
Permanent TSB Group Holdings	1.6
Anglian Water Services Financing	1.6
BPCE SA	1.6
HSBC Holdings	1.4

## 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.
- Where the Fund invests significantly in a single market, this may have a material 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.
- The Fund is subject to risks associated with investing in real estate which may include but is not limited to liquidity constraints arising from difficulties with the disposal of the underlying properties, fluctuations in the value of underlying properties, defaults by borrowers or tenants, market saturation, changes in general and local economic conditions, decreases in market rates for rents, increases in competition, property taxes, capital expenditures or operating expenses and other economic, political or regulatory occurrences affecting companies in the real estate industry.
- Contingent Convertible Securities (CoCo's) convert from debt to equity when the issuer's capital drops below a pre-defined level. This may result in the security converting into equities at a discounted share price, the value of the security being written down, temporarily or permanently, and/or coupon payments ceasing or being deferred.
- If this share class is 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.
- For hedged share class the hedging strategy is used to reduce the impact of exchange rate movements between the share class currency and the base currency. It may not completely achieve this due to factors such as interest rate differentials.
- 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".

<b>INVESTMENT OBJECTIVE</b>	
The Fund aims to generate income and capital growth over the long term (5 years or more).	
<b>GENERAL INFORMATION</b>	
Total net assets (million)	£ 50.24
Performance Benchmark	UK Investment Association's Sterling Strategic Bond NR
IA Sector	£ Strategic Bond
Fund domicile	UK
Fund manager	Dave Hooker
Alternate	Damien Hill
Base currency	GBP
Currencies available	GBP
Fund launch	09 Feb 2013
Distribution dates	28 Feb; 31 Aug

<b>DEALING</b>	
09:00 to 17:00 each business day	
Valuation point: 12:00 London time	
<b>INSTITUTIONAL SHARES W (ACC.) SHARE CLASS DETAILS</b>	
Inception date	11 Feb 2013
Min. initial investment	£ 500,000
Annual mgmt charge	0.50%
ISIN	GB00B8HY5051
Bloomberg	BNILIWA
Sedol	B8HY505
Registered for sale in:	GB
For more details please read the KIID document.	

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.