

## QUARTERLY INVESTMENT REPORT

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# BNY Mellon Absolute Return Global Convertible 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 1-month EURIBOR (the "Cash Benchmark"). EURIBOR is the Euro Interbank Offer Rate and is a reference rate that is constructed from the average interest rate at which Eurozone banks offer unsecured short-term lending on the inter-bank market.

The Cash Benchmark is used as a target against which to measure its performance on a rolling annualised 3 year basis before fees.

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.

## INVESTMENT TEAM

The strategy is managed by senior portfolio managers Frank Campana and James Doolin. Frank and James have worked together as a team for over 20 years and have significant experience in managing convertible hedge fund and absolute return mandates through a wide variety of market conditions. In managing the Strategy, Frank and James are able to draw on the research and idea generation of the wider Fixed Income group and Specialist Equity team. The managers are supported with detailed risk and exposure analytics from quantitative analysts, and more broadly leverage Insight's institutional investment resources in functions such as risk management.

The benchmark was updated on 01/11/2021, performance prior to the change is shown using the previous benchmark. The share class can be different to that of the base currency of the fund. For CHF it is SARON CHF, For EUR it is EURIBOR, For GBP it is GBP SONIA, For USD it is USD SOFR, For SGD it is SIBOR SGD.

## 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 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.

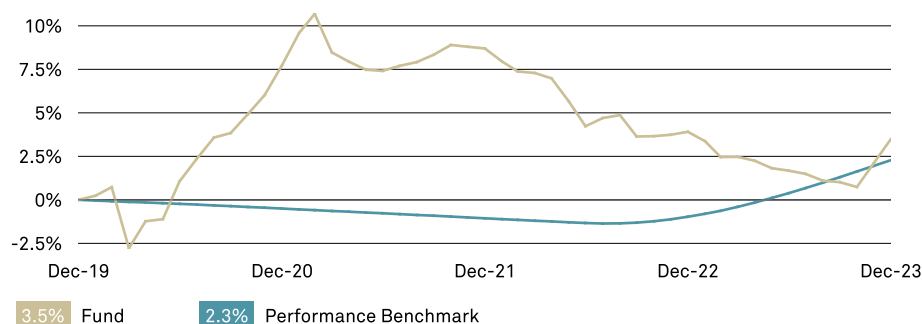
## INVESTMENT PHILOSOPHY

Insight's Convertible Bond team observes there are four key components of convertible bond returns – movements in equities, volatility, credit and interest rates. The team believes that markets are inefficient in pricing these components as current prices embed consensus expectations on the future, which have to adjust as new information becomes available and consensus expectations change. The team believes that its focused research allows the portfolio managers to identify issues where securities are being mispriced, thus presenting investment opportunities. Through adopting an arbitrage approach to convertible bond investment – pairing convertible bonds with equity hedges – the team believes each pair position can maximise gamma whilst mitigating downside risk via the bond floor. In the team's view, returns can be further supplemented by the tactical management of equity delta and selectively capturing new issue premia in the convertible bond market.

## QUARTERLY HIGHLIGHTS

- Performance: The Fund generated a positive return, net of fees, during the quarter.
- Activity: The Fund's exposures shifted substantially during the quarter.
- Outlook & Strategy: We expect convertible valuations to rebound in 2024.

## 4 YEAR CUMULATIVE PERFORMANCE (%)



## PERFORMANCE SUMMARY (%)

LMI Estimated Summary (R)										
							Annualised			
	1M	3M	YTD	1YR			2YR	3YR	5YR	
EUR U (Acc.)	1.37	2.45	-0.41	-0.41			-2.42	-1.33	-	
Performance Benchmark	0.33	0.97	3.29	3.29			1.68	0.92	0.37	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund	-	-	-	-	-	-	7.72	0.91	-4.40	-0.41
Performance Benchmark	0.14	-0.07	-0.34	-0.37	-0.37	-0.40	-0.50	-0.56	0.09	3.29

Source: Lipper as at 31 December 2023. Fund performance EUR U (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

The US Federal Reserve's pivot towards a steady state and probably lower rates in 2024 buoyed risk assets into year end.

### FOURTH QUARTER CONVERTIBLE ISSUANCE REMAINED STRONG

Risk assets ended the fourth quarter significantly stronger despite markets weakening in October on rapidly rising rates and escalating geopolitical tensions in the Middle East. However, easing inflation and evidence of an end to the rate-hiking cycle by the US Federal Reserve (Fed), as well as indications of rate cuts in 2024, boosted investor confidence soon after.

Equity indices were almost universally higher and credit spreads tighter.

For US investment grade credit, the Bloomberg US Aggregate Corporate Index spread tightened by 22 basis points. The Bloomberg Euro Aggregate Corporate Index and Bloomberg Sterling Aggregate Corporate Index both tightened by 15 basis points. High yield markets were notably stronger. The Bloomberg US Aggregate High Yield Index spread narrowed by 71 basis points, while the Pan-European High Yield Index tightened by 50 basis points.

Government bond markets performed strongly as yields declined substantially. Ten-year US Treasury yields reversed the previous quarter's increase to end 69 basis points lower at 3.87%, having briefly exceeded 5% for the first time since 2007 in October. The 10-year German government bond yield fell by over 80 basis points to 2.02%, having been below 2% at points during December. UK Gilts also performed well, with 10-year yields falling by 90 basis point to 3.54%.

Japanese government bond yields were still being managed by the Bank of Japan and had been under upward pressure earlier in 2023, but 10-year yields followed the trend and fell 15 basis points to 0.61%.

Fourth quarter convertible issuance was approximately US\$18bn. This brought year-to-date issuance to almost US\$80bn, which equated to a strong year for issuance that was above historical averages (source: Bank of America). While new issue performance has been fractured, those issued in the fourth quarter performed well on the back of stable/lower rates and stable/stronger equities.

The Fund's performance benefitted from most strategies. Contributors included Schneider Electric and Seino Holdings. Performance also benefitted from theme strategies in Western Digital, Seagate Tech and Welltower. Conversely, our interest rate hedge was the largest detractor.

## ACTIVITY REVIEW

Our positioning became more aggressive in November and December as we increased net equity exposure to +10.4% from +1.1% and continued to seek out new ideas.

### OUR LARGEST CREDIT EXPOSURE CONTINUED TO BE STRONG INVESTMENT GRADE PROFILES

Strategy count increased from 46 to 63 as we positioned into new opportunities, though simultaneously sold a number of strategies that had been underperforming. Duration went from 1.0 to 1.4 and average credit spread from 164 basis points to 210 basis points as the new strategies had slightly longer maturity profiles and wider credit metrics. Given the

declining global rate environment, we believed these were interesting opportunities and worth the small incremental risk.

Geographically, we increased our North America exposure by 10%, primarily at the expense of Japan/Asia, down from 24.1% to 16.5%, and Europe, down from 24.9% to 22.7%. Sector-wise, the biggest shift was selling underperforming industrial names, replacing them with new technology theme and single name strategies.

We actively traded the overlay rate hedge, which mitigated the cost of insurance as rates continued to drop. However, we still maintained a dynamic global duration hedge to protect the Fund in case of a sudden spike in rates. We do not believe the cost of maintaining the VIX Index (which measures US equity market volatility) hedge is aligned to the degree of potential protection it would provide. As a result, we exited our VIX hedge and explored less expensive options.

## INVESTMENT STRATEGY AND OUTLOOK

**We believe our dynamic mix of strategies will play out well in 2024 should central banks hold steady and earnings season not disappoint.**

### WE EXPECT CONVERTIBLE ISSUANCE TO REMAIN HIGH

The year ended strongly from both a risk market and convertible market perspective. The perception that central banks will have inflation under control and now are at the point of a dovish pivot into 2024 was the main catalyst.

Convertible valuations were below average through much of 2023 but we fully expect them to rebound in 2024 should economic activity continue to be steady, there is no recession, the Fed starts to cut rates and new issuance is again strong.

In fact, as companies weigh the elevated cost of straight debt financing versus convertible issues, we anticipate this year's healthy issuance to persist into 2024.

## LONG BOND EXPOSURE BY CREDIT SPREAD

Credit Spread	Fund (%)
0-250	49.88
250-500	50.12
>500	0.00

## ATTRIBUTES

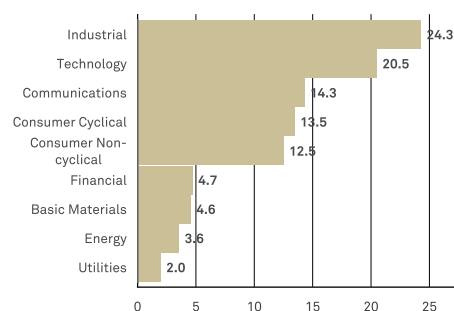
	Fund
No. of Strategies	63
Weighted Average bond duration	1.4 years
Weighted Average credit spread	209.9 bps
VaR (1day, 99% confidence)	0.56%
Net equity exposure	10.40%
Gross leverage (long exposure)	182%
Net leverage (long exposure – short exposure)	90%
Weighted Average equity delta of bonds	62%
Weighted Average bond conversion premium	26%

Strategy refers to number of individual long bond positions, inclusive of specific dynamic hedge where appropriate

Weighted Averages, relate to long bond positions, exclusive of individual hedges or portfolio overlays.

Source: BNY Mellon Investment Management EMEA Limited

## LONG BOND EXPOSURE BY SECTOR



## LONG BOND EXPOSURE BY REGION

	Fund (%)
North America	60.78
Europe	22.71
Asia Pacific	16.50

**KEY RISKS ASSOCIATED WITH THIS FUND**

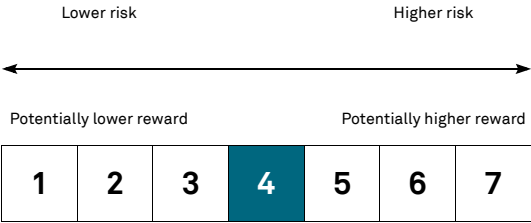
- There is no guarantee that the Fund will achieve its objectives.
- Derivatives are highly sensitive to changes in the value of the asset from which their value is derived. A small movement in the value of the underlying asset can cause a large movement in the value of the derivative. This can increase 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.
- 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 classes 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>	
To deliver a positive return in all market conditions, however positive returns are not guaranteed.	
<b>GENERAL INFORMATION</b>	
Total net assets (million)	€ 67.47
Performance Benchmark	1 month EURIBOR
Lipper sector	Lipper Global - Mixed Asset EUR Bal
Fund type	ICVC
Fund domicile	Ireland
Fund manager	Frank Campana & James Doolin
Base currency	EUR
Currencies available	EUR, GBP, USD, CHF
Fund launch	31 May 2019

<b>EUR U (ACC.) SHARE CLASS DETAILS</b>	
Inception date	31 May 2019
Min. initial investment	€ 15,000,000
Max. initial charge	5.00%
Annual mgmt charge	0.75%
Performance fee	15.00%
ISIN	IE00BJQR5F71
Registered for sale in:	AT, BE, CH, DE, DK, ES, FI, FR, GB, GG, IE, IT, JE, LU, NL, NO, PT, SE, SG

**DEALING**  
09:00 to 17:00 each business day  
Valuation point: 22:00 Dublin time  
Costs incurred when purchasing, holding, converting or selling any investment, will impact returns. Costs may increase or decrease as a result of currency and exchange rate fluctuations.  
For more details please read the KID document.

RISK AND REWARD PROFILE - EUR U (ACC.)



The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay you. We have classified this product as 4 out of 7, which is a medium risk class. This rates the potential losses from future performance at a medium level, and poor market conditions could impact the capacity of BNY Mellon Fund Management (Luxembourg) S.A. to pay you.

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

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MIS0066-310324  
63f881c1001f4e8eae4578044f3d629  
Issued on 25/01/2024