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# BNY Mellon Efficient U.S. Fallen Angels Beta Fund

## INVESTMENT MANAGER



Insight are leaders in risk management, fixed income and multi-asset investment solutions.

The Fund transitioned investment manager on the 1<sup>st</sup> September 2021. Prior to this date it was managed by Mellon Investments Corporation, LLC.

## FUND RATINGS



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## PERFORMANCE BENCHMARK

The Fund will measure its performance against Bloomberg US HY Fallen Angel 3% Cap TR Index (the "Benchmark"). The Investment Manager will use the Benchmark to construct the investment universe. The Fund is actively managed and does not seek to replicate the full constituents of the Benchmark. The Investment Manager has limited discretion to invest outside the Benchmark where the relevant security meets the requirements of and is expected to be included in the Benchmark in the future. The majority of the Fund's holdings will be constituents of the Benchmark and as a result the Fund will be similar in its currency, duration as well as sector exposures and credit quality profile, subject to investment constraints. However the Investment Manager will not seek to reflect the Benchmark's maturity profile. The investment strategy provides similar volatility to the Benchmark over the medium to long-term.

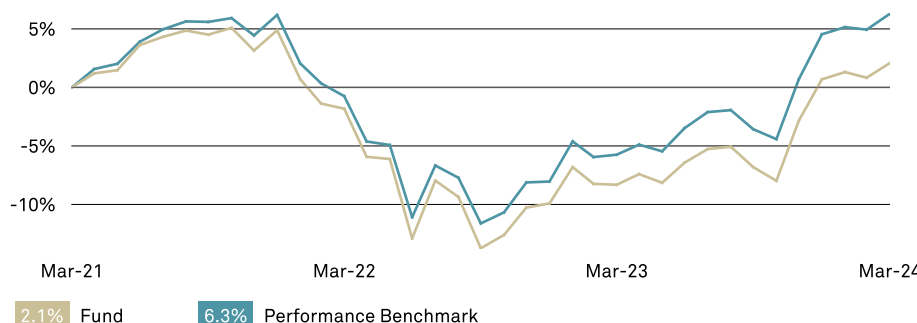
## PERFORMANCE NOTE

**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.**

## QUARTERLY HIGHLIGHTS

- **Performance:** The Fund generated a positive return, net of fees, during the quarter. It lagged its benchmark.
- **Activity:** There were no significant changes to the Fund.
- **Outlook & Strategy:** Although defaults could gradually rise from current low levels, we believe they would be contained.

## 3 YEAR CUMULATIVE PERFORMANCE (%)



## PERFORMANCE SUMMARY (%)

	1M	3M	YTD	1YR	Annualised				
					2YR	3YR	5YR		
USD W (Acc.)	1.25	1.38	1.38	11.35	1.97	0.69	-		
Performance Benchmark	1.29	1.67	1.67	12.77	3.48	2.05	6.12		
Sector	1.06	1.24	1.24	9.35	2.11	1.03	2.65		
No. of funds in sector	83	83	83	79	78	74	-		
Quartile	-	-	-	1	3	3	-		

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund	-	-	-	-	-	-	-	5.35	-14.10	11.76
Performance Benchmark	7.57	-2.37	26.74	9.86	-4.11	16.86	16.64	6.57	-13.40	13.68

Source: Lipper as at 31 March 2024. Fund performance USD W (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 Bloomberg US HY Fallen Angel 3% Cap TR Index continued its upward trajectory in the first quarter of 2024, supported by stronger-than-expected economic data.

### OUR POSITIONING IN B-RATED BONDS DETRACTED AS THESE CREDITS UNDERPERFORMED IN A RISING MARKET

The Bloomberg US HY Fallen Angel 3% Cap TR Index added 1.29% in March 2024 to finish the first quarter of the year with a total return of 1.67%. This was down from the final two months of 2023, when the index returned 9.37%, but still equated to a healthy return. Resilient economic data and a strong labour market in the US contributed to positive investor sentiment.

Credit spreads (+2.33%) contributed all the returns over the quarter, while the rate component detracted (-0.65%). The Bloomberg US HY Fallen Angel 3% Cap TR Index option-adjusted spread continued to tighten as it had done throughout 2023 from 318 basis points at the end of last year to 277 basis points by quarter-end. These relatively tight spreads reflect the stable/strong underlying fundamentals and current low default environment. Meanwhile, US Treasury rates moved modestly higher over the quarter, with the five-year rate rising to 4.21% from 3.85% at the start of the year.

Lower rated, CCC bonds continued to outperform B and BB bonds. Overall, BB and CCC bonds were positive, while B-rated bonds ended the month and quarter negative due to underperformance in the communications sector. All sectors, except communications, closed the quarter in positive territory (in spread return terms), led by consumer cyclicals, energy and insurance.

From the Fund's perspective, our model-driven component had a positive effect on performance during the first quarter. However, despite our credit model's value factor being notably positive, our quality factor was negative against a rising market. Further detracting was our security selection, particularly within communications. Lumen Technologies was among the names that detracted. The company completed a distressed exchange, which boosted (somewhat artificially in our view) its CCC-rated bonds. Our positioning favoured higher rated B-rated bonds, which did not perform as well. Transaction costs detracted modestly.

## ACTIVITY REVIEW

We did not undertake any significant activity during the quarter.

### WE MADE NO MAJOR CHANGES TO THE FUND

Activity was kept to a minimum.

## INVESTMENT STRATEGY AND OUTLOOK

Despite a potential pick-up in defaults at the lower end of the market, the overall backdrop continues to be positive as economies and corporate balance sheets remain resilient and investors continue to look for yield.

### WITH THE LOW LIKELIHOOD OF SEVERE RECESSION, CREDIT SHOULD CONTINUE TO PERFORM WELL

Surprisingly, not only has a recession been avoided in the US, but the economy has been stronger than expected. Furthermore, credit fundamentals remain steady. Balance sheets are still relatively strong after Covid fiscal stimulus. There are, however, signs of deteriorating balance sheets due to higher interest rates, with increasing leverage and weakening interest rate coverage. Stickier inflation has led the US Federal Reserve to delay rate cuts to later in 2024. Three 25 basis points rate cuts have now been priced in (six cuts were priced in back in January).

Against this backdrop, we expect a reversion to a more normal pace of downgrades so that the upgrade/downgrade ratio becomes more balanced. While defaults remain below long-term averages, we believe they could gradually rise. However, the impact should be contained since much of the potential loss is already priced into CCC spreads, where defaults would most likely occur.

## CREDIT QUALITY BREAKDOWN (%)

Years	Fund	Perf. B'mark
IG	5.9	3.0
BB	72.7	77.2
B	15.5	13.2
CCC	5.1	6.0
CC	0.7	0.6
Cash	0.1	0.0

## SECTOR ALLOCATION (%)

	Fund	Perf. B'mark
Cyclical Consumer Goods	20.9	23.0
Communications	15.8	12.4
REITs	11.7	8.8
Energy	10.9	10.7
Consumer Non-cyclical	6.8	7.5
Capital Goods	6.5	5.0
Technology	6.0	6.8
Basic Industries	5.3	5.2
Banking	5.2	6.7
Electric	4.3	4.4
Insurance	2.8	3.3
Transportation	2.1	3.1
Finance Companies	0.7	0.7
Other Industrial	0.6	2.0
Brokerage, asset managers, exchanges	0.4	0.4
Treasury	0.0	0.0
Cash and others	0.1	0.0

## REGIONAL BOND ALLOCATION (%)

	Fund	Perf. B'mark
United States	81.6	84.9
Italy	6.1	6.0
United Kingdom	5.5	3.5
Canada	5.3	3.6
Germany	1.1	1.6
Australia	0.4	0.4
Cash & Others	0.1	0.0

Source: BNY Mellon Investment Management EMEA Limited

## DURATION DISTRIBUTION (%)

Years	Fund	Perf. B'mark
0-1 Year	0.5	0.0
1-3 Years	32.6	32.4
3 - 5 Years	29.8	28.5
5 - 7 Years	15.7	17.3
7 - 10 Years	12.3	13.1
10 - 15 Years	9.0	8.7

## MATURITY DISTRIBUTION (%)

Years	Fund	Perf. B'mark
0-1 Year	0.5	0.0
1-3 Years	24.0	25.2
3 - 5 Years	24.1	23.0
5 - 7 Years	18.9	17.3
7 - 10 Years	7.9	8.7
10 - 15 Years	12.1	12.8
15-25 Years	11.5	12.1
> 25 Years	1.0	0.9

## CURRENCY BREAKDOWN (%)

	Fund
USD	100.0
EUR	0.0

## ISSUER (%)

	Fund
Hudson Pacific Properties LP	3.84
Vodafone Group PLC	3.74
FirstEnergy Corp	3.62
Service Properties Trust	3.55
UniCredit SpA	3.05
Telecom Italia Capital SA	3.05
Rockies Express Pipeline LLC	2.84
Nordstrom Inc	2.66
Newell Brands Inc	2.50
Buckeye Partners LP	2.39

## HOLDINGS (%)

	Fund
Vodafone Group Plc 7% 04apr2079 (callable 04jan29)	3.74
Western Digital Corp 4.75% 15feb2026 (callable 15nov25)	2.27
Rogers Communications In 5.25% 15mar2082 (callable 15mar27) 144a	2.24
United Rentals North Am 3.875% 15nov2027 (callable 08apr24)	1.76
Unicredit Spa 7.296% 02apr2034 (callable 02apr29) 144a	1.70
Dresdner Fndg Trust I 8.151% 30jun2031 (callable 30jun29) 144a	1.61
Newell Brands Inc 5.7% 01apr2026 (callable 01jan26)	1.54
Unicredit Spa 5.861% 19jun2032 (callable 19jun27) 144a	1.35
Rolls-royce Plc 3.625% 14oct2025 (callable 14jul25) 144a	1.31
Embarq Corp 7.995% 01jun2036	1.30

## PORTFOLIO CHARACTERISTICS

	Fund	Perf. B'mark
Yield to Worst (%)	7	7
Yield to Maturity (%)	7	7
Current yield (%)	6.00	5.95
Effective duration yrs	4.87	4.91
Modified duration yrs	4.87	4.91
Average Coupon (%)	5.50	5.46
Average life / maturity	7.06	7.15
Average Rating	BB	BB
Convexity	0.41	0.42
Spread to Government (bp)	284.00	277.72
Number of holdings	181.00	178.00
Number of issuers	83.00	86.00
Spread to swaps (bp)	295.46	294.13
Option Adjusted Spread	284.00	277.72
Effective spread duration yrs	4.94	4.99
Maturity yrs	7.09	7.26
Beta	0.98	-

**KEY RISKS ASSOCIATED WITH THIS 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.
- Where the Fund invests significantly in a single market, this may have a material impact on the value of the 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.
- The issuer of a security held by the Fund may not pay income or repay capital to the Fund when due.
- The Fund takes its charges from the capital of the Fund. Investors should be aware that this has the effect of lowering the capital value of your investment and limiting the potential for future capital growth. On redemption, you may not receive back the full amount you initially invested.
- Subordinated Debt carries a greater level of risk compared to unsubordinated debt because it receives a lower priority level in terms of its claims on a company's assets in the case of the borrower's default.
- 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.
- The Fund follows an ESG investment approach. This means factors other than financial performance are considered as part of the investment process. This carries the risk that the Fund's performance may be negatively impacted due to restrictions placed on its exposure to certain sectors or types of investments. The approach taken may not reflect the opinions of any particular investor. In addition, in following an ESG investment approach, the Fund is dependent upon information and data from third parties (which may include providers for research reports, screenings, ratings and/or analysis such as index providers and consultants). Such information or data may be incomplete, inaccurate or inconsistent.
- 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.
- A complete description of risk factors is set out in the Prospectus in the section entitled "Risk Factors".

