

BNY MELLON GLOBAL REAL RETURN FUND (EUR)

INVESTMENT MANAGER



Newton Investment Management: Newton pursues a distinctive global thematic investment approach and provides added value from extensive proprietary research.

PERFORMANCE AIM

The Fund aims to deliver cash 1 Month EURIBOR + 4% p.a. over 5 years before fees. However, a positive return is not guaranteed and a capital loss may occur.

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 generated a negative return over the quarter.
- **Activity:** We initiated new holdings in Prudential and Suncor Energy. Vodafone Group was among the holdings that we sold.
- **Outlook & Strategy:** Despite our current caution, the portfolio remains dynamic and we will seek to take advantage of opportunities and market dislocations as they present themselves.

5 YEAR CUMULATIVE PERFORMANCE (%)



PERFORMANCE SUMMARY (%)

	1M	3M	YTD	1YR	Annualised		
					2YR	3YR	5YR
Euro W (Acc.)	0.21	-2.66	-2.66	-2.86	-1.33	-1.03	1.25
	2013	2014	2015	2016	2017		
Fund	3.79	5.16	1.91	1.26	1.51		

Source: Lipper as at 31 March 2018. Fund performance Euro 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.

PERFORMANCE COMMENTARY

The first quarter of 2018 proved to be something of a rollercoaster ride for global equity markets. The MSCI AC World Index finished the quarter down in euro terms. Against this backdrop, the Fund generated a negative return over the quarter.

CHEMICALS COMPANY ALBEMARLE DETRACTED FROM RETURNS

After starting the year with a bang, with the S&P 500 Index registering a significant gain in January alone, February marked the return of volatility to markets as worries prompted by stronger-than-expected inflation data and subsequently higher bond yields caused a sell-off across most asset classes. Market turbulence resurfaced in March, prompted by fears of a global trade war between the US and China, coupled with weakness in technology stocks, notably those that had propelled the market higher. It was a more mixed picture for bond markets, with emerging market bonds registering a positive return in local currency terms, while US Treasuries and credit markets made negative returns, albeit significantly outperforming equities.

The Fund's negative return was driven primarily by the equity holdings within the return-seeking core. Speciality chemicals company Albemarle was the largest single detractor following an announcement of planned production expansion by its competitors, leading to a potential increase in lithium supply. Indian software and retail service company Vakrangee also displayed weakness over the quarter following a negative article in a local newspaper casting doubts on the company's corporate governance standards. We continue to hold both companies as we believe the growth drivers underpinning the investment cases are intact. Finally, some weakness was seen in a number of holdings in the healthcare and tobacco sectors perceived as 'bond proxies'.

A positive contribution came from a number of technology holdings including Cisco Systems, a recent addition to the portfolio, driven by an upturn in its core networking products. We have chosen to avoid the so-called 'FAANG' (Facebook, Apple, Amazon, Netflix, Alphabet's Google) group of prominent technology stocks, favouring areas of technology which we regard as exhibiting more stable growth and this benefited the portfolio during the market rout at the end of the quarter. The holding in local currency-denominated Mexican government bonds was accretive to returns owing to a combination of currency appreciation, a stabilisation of inflation and our decision to shift exposure to the long end of the yield curve which outperformed the shorter end.

Within the stabilising layer, we saw a reversal of the pattern seen in previous quarters, with the Fund's derivative protection making a positive contribution. The bouts of volatility observed as stock markets initially came under pressure resulted in the Fund's equity futures mitigating the effect of the market sell-offs. Moreover, we took advantage of the volatility in February and took profits on the Fund's put options while maintaining protection through short index futures.

The Fund's government bond and gold holdings detracted from returns, particularly in January when risk assets continued to power ahead.

ACTIVITY REVIEW

Throughout most of the review period, the net equity exposure remained broadly unchanged, increasing on a tactical basis in March. In the main, our activity over the quarter was to pare back gross equity exposure with a commensurate reduction in the short futures used to offset this exposure.

NEW HOLDINGS IN PRUDENTIAL AND SUNCOR ENERGY WERE ADDED TO THE FUND

The proceeds from these adjustments have increased the Fund's cash position, which we view as one of the truly defensive assets available to us, while also providing us with the flexibility to take advantage of attractive assets at distressed prices.

We added a new holding in Prudential, the principal attraction being the group's exposure to burgeoning demand for its life insurance and protection products in Asia. Subsequent to our purchase, management has announced its intention to spin off Prudential's UK business, which we think should highlight the value embedded within the wider group. We increased the portfolio's exposure to the oil and gas sector through the purchase of Suncor Energy. Having come through a period of excessive and indiscriminate capital spending, oversupply and weak commodity prices, the integrated oil companies, such as Suncor, are now taking a more disciplined approach.

As part of the decision to reduce the gross equity exposure and at the same time scale back proportionately the direct equity protection, a number of sales were made across the board. We sold Vodafone owing to concerns about the outlook for pricing in the group's southern European markets. The entire position in Suntory Beverage & Food was also sold as part of a broader reduction in the portfolio's overall equity weighting. This had become a relatively low-conviction position among the Fund's staple holdings given the structural headwinds facing soft-drink consumption, not least from anti-sugar legislation.

Over the long term, we continue to view bonds as an effective hedge against an environment of slowing growth and long-term structural challenges including declining productivity, a shrinking labour force and the vast build-up of debt globally. However, we took the short-term tactical decision to reduce the overall interest-rate sensitivity and dampen the volatility of the portfolio through the sale of some of the Fund's US Treasury and Australian sovereign debt positions. We do retain some exposure to longer duration Australian bonds as we feel the inflationary backdrop is significantly different to that of the US. We also took profits on some of the Fund's gold-mining holdings, further reducing the portfolio's vulnerability to rising real rates.

INVESTMENT STRATEGY AND OUTLOOK

The start of the year has not lacked headlines and volatility and it is clear that cracks are beginning to emerge in the narrative of the synchronised global growth story. The structural shift in the level of volatility from the ultra-lows of 2017 is reflected in the weaker performance of financial assets as the risk premium has risen.

DESPITE OUR CURRENT CAUTION, WE WILL TAKE OPPORTUNITIES AS THEY PRESENT THEMSELVES

Despite this, central banks are continuing to pursue their agenda of monetary tightening. Our view is that we are approaching the end of the business cycle and there is an

increasing risk that, with interest rates on the rise and central-bank liquidity withdrawn, rising real rates will burst the asset-price inflation bubble. With corporate profits under pressure as wage growth and debt funding costs grow, a derating in equity markets appears highly probable.

Our view is reflected in the portfolio's positioning, with a bias towards defensive, lower beta, higher dividend-paying businesses within the equity portfolio, coupled with a significant proportion of both direct and indirect protection, the former largely through short futures on the S&P 500 Index and the latter through bond, cash and gold holdings. Despite our current caution, the portfolio remains dynamic: we will seek to take advantage of opportunities and market dislocations as they present themselves, as well as making use of tactical tools, particularly within the stabilising layer, to adjust exposure as the backdrop evolves.

TOTAL PORTFOLIO BREAKDOWN (%)

Return Seeking Assets	60.8
Equities	44.8
EM Debt	6.1
Corporate Bonds	4.8
Infrastructure Funds	2.5
Renewable Energy	2.5
Risk offsetting positions- direct equity index protection (delta netted exposure)	6.0
Stabilising Assets & Hedging Positions	39.2
Government Bonds	8.6
Precious Metals	3.8
Index Linked Bonds	2.4
Currency Hedging	-0.4
Cash	24.8
Equity exposure net of direct index protection	38.9
Return seeking assets net of direct index protection	54.8

Risk offsetting positions:

Equity index futures and options - Providing downside protection if equity markets sell-off.

Cash may include the premium paid/received on derivatives.

TOP 10 HOLDINGS (%)

iShares Physical Metals PLC iShares Physical Gold ETC USD	2.2
USA Treasury Notes 1.5% 31/10/2019 USD100	2.0
Canada Housing Trust No1 2.35% Bds 15/06/2027 CAD5000	1.9
Novartis AG CHF0.50 (Regd)	1.8
Cisco Systems Inc Com Stk USD0.001	1.7
Royal Dutch Shell PLC EUR0.07	1.7
AIA Group Ltd NPV	1.6
Wolters Kluwer NV EUR0.12	1.6
Australia (Commonwealth) 3.75% Bds 21/04/2037 AUD1000	1.5
CA Inc Com Stk USD0.10	1.5

EQUITY SECTOR BREAKDOWN (%)

Financials	7.8
Industrials	7.7
Technology	6.9
Consumer Goods	5.3
Consumer Services	4.6
Health Care	4.6
Utilities	3.2
Oil & Gas	3.1
Basic Materials	1.1
Telecommunications	0.5

BOND PORTFOLIO BREAKDOWNS

RATING BREAKDOWN

Average Rating	A
Government Bonds	AA
Investment Grade Bonds	BBB
High Yield Bonds	BB

DURATION (IN YEARS)

Average Gross Bond Duration (Years)	7.3
Average Net Bond Duration (Years)*	6.1
Government Bonds	8.0
Investment Grade Bonds	6.3
High Yield Bonds	5.4

*Duration including impact of hedging exposure using bond options and futures

Source: BNY Mellon Investment Management EMEA Limited

NUMBER OF HOLDINGS

No. of Holdings	48
Government Bonds	21
Investment Grade Bonds	8
High Yield Bonds	19

YIELD (%)

Average yield	4.3
Government Bonds	3.9
Investment Grade Bonds	3.0
High Yield Bonds	6.1

REGIONAL EQUITY ALLOCATION (%)

Europe ex UK	16.8
North America	11.0
UK	9.4
Pacific ex Japan	5.3
Japan	1.0
Others	1.3

CURRENCY ALLOCATION (%)

EUR	90.6
USD	0.9
CHF	0.0
GBP	0.0
Others	8.5

KEY RISKS ASSOCIATED WITH THIS FUND

- There is no guarantee that the Fund will achieve its objectives.
- The performance aim is not a guarantee, may not be achieved and a capital loss may occur. Funds which have a higher performance aim generally take more risk to achieve this and so have a greater potential for returns to vary significantly.
- 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.
- Contingent Convertible Securities (CoCo's) convert from debt to equity when the issuer's capital drops below a predefined 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.
- 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 shareclass 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 total return in excess of a cash benchmark (as described below) over an investment horizon of 3-5 years.

GENERAL INFORMATION

Total net assets (million)	€ 3,330.82
Lipper sector	Lipper Global - Mixed Asset EUR Flex - Global
Fund type	ICVC
Fund domicile	Ireland
Fund manager	Aron Pataki
Alternate	Suzanne Hutchins
Base currency	EUR
Currencies available	CHF
Fund launch	08 Mar 2010

DEALING

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

EURO W (ACC.) SHARE CLASS DETAILS

Inception date	30 Mar 2012
Min. initial investment	€ 15,000,000
Ongoing charge	0.85%
Annual mgmt charge	0.75%
Max. initial charge	5.00%
ISIN	IE00B70B9H10
Registered for sale in:	AT, BE, DK, DE, FR, FI, GG, IE, IT, JE, LU, NL, NO, PT, SG, ES, SE, CH, GB, KR

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, financial reports and KIID for each fund in which they want to invest. Go to www.bnymellon.com. Investment Managers are appointed by BNY Mellon Investment Management EMEA Limited (BNYMIM EMEA) 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 or the BNY Mellon funds. Portfolio holdings are subject to change, for information only and are not investment recommendations. To help continually improve our service and in the interest of security, we may monitor and/or record your telephone calls with us. 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 Global Funds, plc, an open-ended investment company with variable capital (ICVC), with segregated liability between sub-funds. Incorporated with limited liability under the laws of Ireland and authorised by the Central Bank of Ireland as a UCITS Fund. The Management Company is BNY Mellon Global Management Limited (BNY MGM), approved and regulated by the Central Bank of Ireland. Registered address: 33 Sir John Rogerson's Quay, Dublin 2, Ireland. In **Austria**, the current Prospectus and the Key Investor Information Document are available free of charge from Raiffeisen Zentralbank Österreich Aktiengesellschaft, Am Stadtpark 9, A-1030 Vienna. In **Belgium**, the KIID, Prospectus, articles of association and latest annual report are freely available upon request to the paying agent: JP Morgan Chase Bank, 1 Boulevard du Roi Albert II, B-1210 Bruxelles, Belgium. The Prospectus, KIIDs, articles of association, annual and half-yearly financial reports are available in French. In **France**, the KIID, Prospectus, articles and latest annual report are freely available upon request to the centralising agent: BNP Paribas Securities Services, 3 rue d'Antin, 75002 Paris, tél: 00 33 1 42 98 10 00. Consent under the Control of Borrowing (**Jersey**) Order 1958 (the "COBO Order") has not been obtained for the circulation of this document. Accordingly, the offer that is the subject of this document may only be made in Jersey where the offer is valid in the United Kingdom or Guernsey and is circulated in Jersey only to persons similar to those to whom, and in a manner similar to that in which, it is for the time being circulated in the United Kingdom or Guernsey as the case may be. The Directors may, but are not obliged to, apply for such consent in the future. In **Germany**, this is for marketing purposes only. In Germany, the prospectus is available from BNYMIM EMEA, German branch, MesseTurm Friedrich-Ebert-Anlage 49, 60308 Frankfurt am Main, Germany. In **Spain**, BNY Mellon Global Funds is registered with the CNMV, Registration No. 267. In **Switzerland**, the Company is established as an open-ended umbrella type investment company under Irish law and the Sub-Funds are authorised by FINMA for distribution to non-qualified investors in or from Switzerland. The Swiss representative is Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva. The Swiss paying agent is Banque Cantonale de Genève, 17, quai de l'Île, 1204 Geneva. Investors in Switzerland can obtain the documents of the Company, such as the Prospectus, the KIIDs, the Memorandum and Articles of Association, the semi-annual and annual reports, each in their latest version as approved by FINMA, in German, and further information free of charge from the Swiss representative. BNYMIM EMEA, BNY MGM, and any other BNY Mellon entity mentioned are all ultimately owned by The Bank of New York Mellon Corporation. Issued in UK and Europe (excluding Switzerland) 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. Issued in Switzerland by BNY Mellon Investments Switzerland GmbH, Talacker 29, CH-8001 Zürich, Switzerland. Authorised and regulated by the FINMA. The Bank of New York Mellon, DIFC Branch (the "Authorised Firm") is communicating these materials on behalf of BNYMIM EMEA. BNYMIM EMEA is owned by The Bank of New York Mellon Corporation. This material is intended for Professional Clients only and no other person should act upon it. The Authorised Firm is regulated by the Dubai Financial Services Authority

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