BNY MELLON

BNY MELLON EUROPEAN CREDIT FUND

INVESTMENT MANAGER

Insight INVESTMENT

Insight Investment Management (Global) Limited: Insight are leaders in absolute return investing , multi-asset, specialist equity solutions, fixed income and liability driven investment.

FUND RATINGS

MORNINGSTAR ★★★★

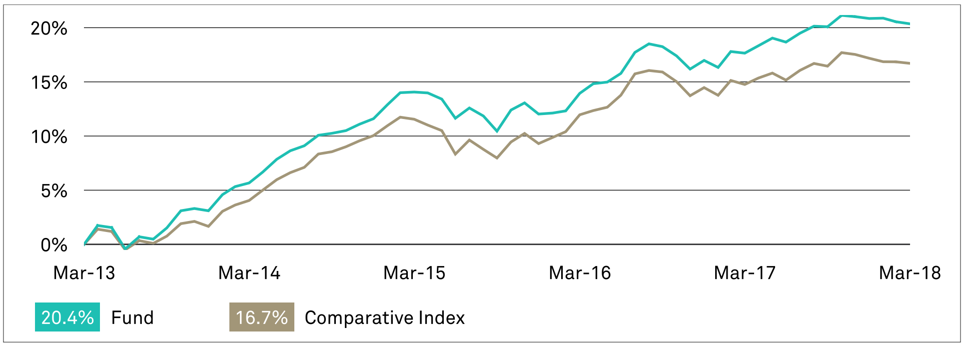
PERFORMANCE NOTE

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, net of fees.
- Activity: We remained active but selective in the new issue market and reduced the risk of the Fund during the quarter.
- Outlook & Strategy: We expect eurozone growth to be robust and inflation to normalise, leading to a continued tapering of asset purchases from the European Central Bank (ECB). We are now modestly positive on credit.

5 YEAR CUMULATIVE PERFORMANCE (%)



PERFORMANCE SUMMARY (%)

					Annualised		
	1M	3M	YTD	1YR	2YR	3YR	5YR
Euro C (Acc.)	-0.16	-0.41	-0.41	2.30	2.78	1.81	3.77
Comparative Index	-0.12	-0.40	-0.40	1.70	2.10	1.52	3.14
Sector	-0.21	-0.69	-0.69	1.55	2.15	1.13	2.93
No. of funds in sector	161	157	157	152	144	136	98
Quartile	3	2	2	2	2	2	1

	2013	2014	2015	2016	2017
Fund	-	8.24	0.39	4.42	3.31
Comparative Index	2.24	8.24	-0.66	4.72	2.37

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

European corporate bonds had a mixed start to the year despite economic data remaining relatively robust, albeit slightly weaker than previously. Investors have become increasingly concerned about monetary tightening, as the ECB began reducing its monthly asset purchases and the US Federal Reserve (Fed) also adopted a hawkish stance to its monetary policy. There was also a focus on the continuing rise of populism, given the recent Italian election result, which showed sizeable gains for the anti-establishment parties; this followed last September's German federal election which delivered a similar outcome.

OUR CREDIT STRATEGY AND STOCK SELECTION BOTH HELPED FUND PERFORMANCE DURING THE QUARTER

Following the business-friendly outcomes of the French and Dutch elections, the market had become less concerned about political developments in the eurozone. However, the recent Italian federal election result – coming after German Chancellor Angela Merkel spent months negotiating a new coalition government – highlighted the continuing rise of populism. With the eurozone economy performing well, the focus remains on the prospect of forthcoming monetary tightening, with the ECB recently starting to taper its asset purchases and the Fed's new Governor, Jerome Powell, flagging up further, impending US rate rises.

European government bonds generated negative returns over January, given a sharp upward move in yields. German Bund yields rose across the curve, while semi-core markets also registered negative returns. However, peripheral bond markets rose as spreads narrowed strongly in both Spain and Italy (following the latter's sharp sell-off in the previous month due to investor concerns ahead of the country's March election). Despite generating negative returns, credit markets outperformed European government bonds over January. Spreads tightened in both the industrials and utilities sectors, with telecommunications particularly strong in the former. Financials also performed well, especially subordinated instruments in both the banks and insurance sectors.

During February, higher US inflation figures initially led to wider bond yields and increased volatility, resulting in weaker equity and credit markets. However, the subsequent 'risk-off' environment caused yields to fall, with the European government bond market generating a small positive return over the month. Germany and Italy posted positive returns but Spain and Portugal were underperformers. Credit markets weakened over February, generating a negative excess return. Spreads widened the most in financials – particularly subordinated debt – but were also wider in industrials, led by telecommunications, and utilities.

In March, government bonds benefited from a flight to safety in another difficult month for global risk assets. Market volatility increased for a number of reasons. These included the imposition of import tariffs by the US and China, weakness in the US technology sector (because of the data privacy issues surrounding Facebook) and signs of weaker global growth following the latest economic releases. Given the 'risk-off' move in markets, European government bond yields continued to fall over the month, resulting in a positive return; peripheral countries such as Italy and Spain outperformed Germany. However, corporate bond markets had another weak month, generating a negative return. Spreads widened the most in insurance – particularly subordinated debt – but were also wider in energy and industrials.

In this environment, the Fund generated a negative return over the quarter, on a net basis. Duration, currency and our yield curve strategies all detracted from performance.

Meanwhile, the largest contribution to performance came from our credit strategy. Our security selection was also beneficial.

Negative sector allocation came mainly from banks, insurance and media. Positive sector allocation was largely due to pooled funds, automobiles, utilities, food and beverage, consumer non-cyclicals and energy. The sectors with the most negative security selection during the quarter were media, banks and food and beverage. Strong security selection also contributed to performance. However, security selection helped in several other sectors, particularly insurance, energy, property and healthcare.

In terms of security selection, the biggest detractors from performance were telecommunications company SES Global, speciality financial Intrum Justitia, Raiffeisen Bank, Deutsche Bank and retailer Tesco. Meanwhile, the leading contributors were oil company Continental Resources, insurers XL Group and Vivat, utility El Paso and a couple of credit default swaps in the European banking and US media sectors.

ACTIVITY REVIEW

The Fund is now modestly positive on credit and has minimal exposure to non-euro (US dollar and sterling) credit.

WE REMAINED ACTIVE BUT SELECTIVE IN THE NEW ISSUE MARKET AND REDUCED THE RISK OF THE FUND DURING THE QUARTER

In terms of activity during January, we sold some exposure to make way for anticipated new issuance; sales included conglomerate Softbank, industrial company General Electric, real estate company Aroundtown (which we switched into Vonovia) and utility Gas Natural. We added to our banks exposure, specifically Barclays, Deutsche Bank, Societe Generale, UniCredit and Credit Mutuel Arkea.

At the start of February, we reduced risk by selling insurer XL Group and cutting exposure to Continental Resources, Deutsche Bank and healthcare companies Zimmer Biomet and Thermo Fisher Scientific. However, we also participated in a new issue from healthcare company Novartis. Later in the month, we purchased Adler Real Estate and new issues from bancassurer Unipol Gruppo Finanziario and bank Societe Generale. We also added exposure to telecommunications operator TDC Group and media company TDF Infrastructure.

During March, we further reduced risk and became underweight credit spread duration. This was done by selling exposure to Macquarie Group, CaixaBank, Banco Sabadell and Aroundtown in the financials sector. New issuance was strong, though it slowed down towards the end of the month (due to the holiday season). We purchased new issues from Allied Irish Banks Group, Citigroup, AXA and property company Vonovia in the financials sector, as well as healthcare company Sanofi. Other additions later in the month included miner Anglo American, bank ABN Amro, capital goods company General Electric and healthcare company Thermo Fisher Scientific.

We have reduced risk, but we remain modestly positive on credit. Sectors we currently favour include financials (insurance and banks), media and capital goods, while we are underweight a range of sectors including automobiles, basic materials and healthcare. We continue to hold very light positioning in non-euro (US dollar and sterling) credit.

INVESTMENT STRATEGY AND OUTLOOK

European economic activity continues to be robust, though underlying inflation remains subdued. The ECB has recently begun to taper its asset purchases and market participants have focused on the prospect of further monetary tightening. European credit markets are expected to remain well supported, notwithstanding risks related to the ongoing Brexit negotiations and US protectionism.

WHILE THE ECB HAS RECENTLY BEGUN TAPERING ITS ASSET PURCHASES, ITS PROGRAMME IS STILL LENDING THE EURO CREDIT MARKET SUPPORT

European economic data continues to be very strong, despite some slightly softer data recently, with an acceleration in investment now underway. Both headline and core inflation are only increasing very gradually; however, risks have clearly shifted to the upside. The ECB recently reduced its quantitative easing purchases from €60bn to €30bn a month, lasting until September 2018; there will then be a reassessment of asset purchases and, if the economy remains strong, we believe they are likely to stop after that. Similarly, the removal of negative deposit rates is likely to occur in the first three quarters of 2019. However, in the meantime, we believe corporate bond purchases are likely to continue at a high level within the programme with other elements, such as public sector bonds and covered bonds/asset-backed securities, being tapered more aggressively. Overall, euro credit continues to be well supported. In our view, the key risk for the EU is the UK's planned exit in March 2019 and how, ahead of that date, Brexit negotiations are handled. Globally, we believe the main threats come from US politics and economic policy, particularly the rising risk of protectionism.

CREDIT QUALITY BREAKDOWN (%)

	Fund	Comp. Index
AAA	0.0	0.6
AA	5.6	15.3
A	41.7	47.6
BBB	43.3	36.5
BB & below	6.5	0.0
Insight EMD Fund	2.7	0.0
Insight Short Dated HY Fund	1.9	0.0
Credit indices	-2.9	0.0
NR	-0.6	0.0
Cash*	1.7	0.0

Breakdown includes Futures

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

TOP 10 ISSUERS (%)

	Fund
Volkswagen	3.3
JP Morgan	2.8
Towd Point Mortgage Funding	2.3
Societe Generale	2.2
BNP Paribas	2.1
Goldman Sachs	2.0
Deutsche Bank	2.0
Intesa Sanpaolo	2.0
Morgan Stanley	2.0
EDF	1.9

Source: BNY Mellon Investment Management EMEA Limited

MATURITY DISTRIBUTION (%)

Years	Fund	Comp. Index
0-1 yr	-5.2	0.7
1-3 yrs	27.6	22.9
3-5 yrs	31.9	26.5
5-7 yrs	19.5	21.2
7-10 yrs	18.4	20.1
10-15 yrs	7.0	6.5
15+ yrs	0.8	2.1

Breakdown includes Futures

SECTOR BREAKDOWN (%)

	Fund	Comp. Index
Financials	40.5	36.6
Corporate Non-Cyclicals	26.8	36.5
Corporate Cyclicals	23.0	26.7
ABS	4.4	0.0
Insight EMD Fund	2.7	0.0
Insight Short Dated HY Fund	1.9	0.0
Securitised	1.1	0.0
Supranationals	0.8	0.3
iTraxx	-2.9	0.0
Cash*	1.7	0.0

Breakdown includes Futures

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

PORTFOLIO CHARACTERISTICS

	Fund	Comp. Index
Spread duration (years)	5.0	5.2
Duration (years)	5.1	5.2
Yield to Maturity (%)	1.3	0.9
Number of Issuers	138	549
Average maturity (years)	5.7	5.7
Average quality	BBB+	A-
Average Coupon (%)	2.3	2.3

COUNTRY BREAKDOWN (%)

	Fund	Comp. Index
United States	25.2	18.3
France	14.0	21.0
Germany	9.9	13.3
UK	9.8	10.1
Netherlands	7.9	6.3
Italy	6.0	5.4
Spain	5.7	5.3
Insight EMD Fund	2.7	0.0
Insight Short Dated HY Fund	1.9	0.0
Ireland	0.3	0.5
Credit Indices	-2.9	0.0
Cash & Other*	19.6	19.7

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 significantimpact 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 (i.e. the reporting 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)	€ 55.20
Comparative Index	Markit iBoxx Euro Corporates TR
Lipper sector	Lipper Global - Bond EUR Corporates
Fund type	ICVC
Fund domicile	Ireland
Fund manager	Lucy Speake
Base currency	EUR
Currencies available	EUR, CHF, GBP, USD, JPY
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
Ongoing charge	0.62%
Annual mgmt charge	0.50%
Max. initial charge	5.00%
ISIN	IE00B5SGRP88
Registered for sale in:	AT, BE, DK, DE, FR, FI, GG, IE, IT, JE, LU, NL, NO, PT, ES, SE, CH, GB

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

IMPORTANT INFORMATION