JANUARY 2023

REASONS TO CONSIDER INSIGHT'S SHORT-DATED HIGH YIELD STRATEGY

KEY STATS: 31 DECEMBER 2022[1]

Yield: 8.24% **Contractual duration:** 3.04 years **Anticipated duration:** 2.12 years

STRATEGY OVERVIEW: FOCUSED ON VISIBLE CASHFLOWS

Insight's short-dated high yield strategy targets issues which will be repaid within a two-year time horizon. Ideally, these issuers are seeking to enhance their business in some way; this can take the form of selling an asset, buying a competitor, or undertaking capital investment such as building a factory or plant. This activity will lead to an increase in the amount of cash generated by the company, either via increased revenue streams or from the proceeds of a sale. This additional cash can be used by the company to repay its debt, or to refinance its debt on more attractive terms. This is how we get repaid in two years. In our view, this strategy can produce attractive levels of income while minimising earnings and default risk.

In general, within our global universe, we also target short-dated debt issued by companies with defensive properties. For example:

- Telecoms companies tend to have consistent cashflows as consumers are reluctant to give up their mobile phones even during recession.
- Packaging companies can benefit during recessions as products are not discretionary.
- Some companies build cash piles well in advance of debt maturities, allowing opportunistic purchases given our short-dated focus.

Once we have identified a potential target for investment, regular contact with management is key to ensure that events are progressing as planned. We would normally identify four to five key stages over the two-year period which need to be met for us to be confident that we will be repaid on time. If it becomes clear that these stages are not being met, or that timelines are delayed we will seek to divest the issue. A sale in this situation is generally straightforward, as the original business plan is generally still in place, just delayed or not meeting our prudent timelines.

In our view, assuming that interest rates plateau and there is only a shallow recession in developed markets, it should be possible to generate returns of between 8% to 10% in short-dated high yield in 2023.

MINIMISING DEFAULT RISK

In addition to our focus on visible cashflows, we also avoid issues with a rating in the CCC category other than the subordinated debt of higher rated issuers. For CCC-rated subordinated debt, the default risk is that of the higher rated BB or B rated company. Although CCC rated issuer paper offers a yield premium, in our view it is generally not sufficient to compensate for the higher default risk (see Figure 1). By taking this approach, we have experienced very few defaults since the inception of our fund relative to the broader high yield universe (see Figure 2).

Figure 1: Average annual Default rates by rating[2]

BB	1.13%
B	3.21%
CCC	9.42%
Aggregate high yield	3.72%

Figure 2: Default rates[3]

	Calendar year											
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Short dated HY strategy	0	0	1	0	0	0	0	0	2	0	0	0
Global HY universe	63	54	219	98	73	116	145	105	64	73	72	45

[1] Source: Insight. Data as at 31 December 2022.
[2] Source: Moody's and Insight as at 30 October 2022. Default data covers period 1920 to 2021.
[3] Source: Insight. Data as at 31 December 2022.

HOW DID THE STRATEGY PERFORM IN THE 2022 SELL OFF?

2022 was unusual in that both equity and bond markets experienced significant drawdowns, resulting in an extremely challenging period for risk assets. Against this real-life stress test, the strategy experienced negative performance over the year, but our short duration and investment strategy limited losses (see Figure 3).

Figure 3: Performance of the short-dated high yield strategy versus high yield benchmarks in 2022[4]

Short-dated		All maturities		
BNY short dated high yield	Global high yield 1-5 year (Ba/B)	Global high yield	US high yield	European high yield
-3.1% (USD) -5.1% (Euro)	-8.8% (USD) -11.0% (Euro)	-11.8% (local) -11.4% (USD)	-11.2%	-11.5%

FOUR REASONS WE BELIEVE HIGH YIELD MAY BE SAFER THAN YOU THINK

When we examine the US high yield market, which is the largest and deepest high yield market, a number of factors reassure us. High-yield issuers have deleveraged, and extended their maturity profiles, locking in funding when interest rates were low. As a result, interest coverage, which is the number of times interest payments are covered by earnings before interest and taxes, has risen sharply. Default rates have declined, and we expect defaults to rise only gradually in the years ahead, remaining low by historical standards.

Figure 4: Interest cover is at multi-decade highs[5]

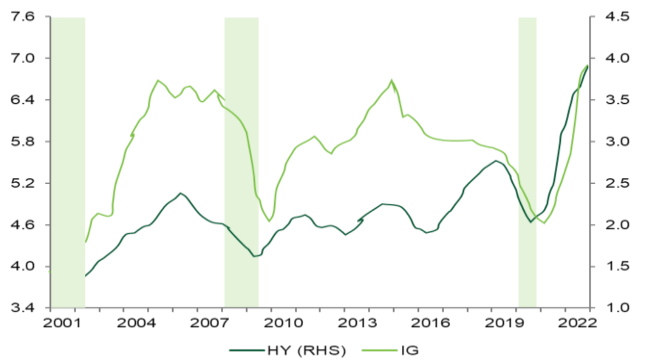


Figure 5: Leverage has fallen significantly[5]

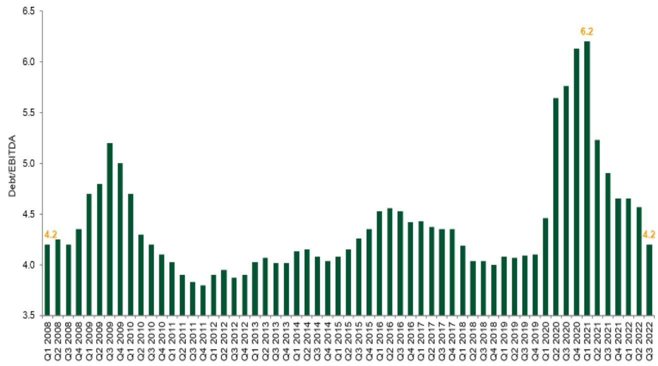


Figure 6: There are few maturities in the next few years[5]

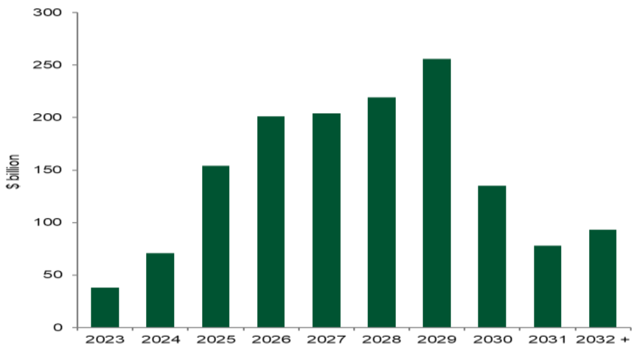
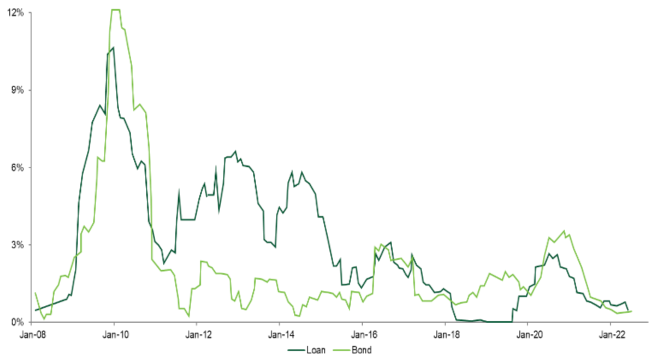


Figure 7: These factors have kept default rates low[5]



[4] Please refer to the risk disclosures at the back of this document. Source: Insight, performance to 31 December 2022 and Bank of America Merrill Lynch indices total returns to 30 November 2022: US high yield 'H0A0', Global high yield 'HW00', European high yield 'HE00', Global 1-5 year high yield (hedged into USD) 'HNVC', Global 1-5 year high yield (hedged into Euros) 'HNVC'. The performance of the short-dated high yield bond strategy is gross of fees and in USD.

[5] Source: Insight and Bloomberg. Data as at 31 December 2022.

PERFORMANCE

TEN-YEAR PERFORMANCE RECORD TO 31 DECEMBER 2022

	Calendar year returns									
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Short-dated high yield bond strategy (GBP)	-3.68	5.41	0.43	6.93	-0.41	5.23	7.95	4.06	1.54	7.62
Benchmark (GBP)	1.03	-0.03	0.17	0.68	0.60	0.23	0.38	0.45	0.42	0.39
Short-dated high yield bond strategy (EUR)	-5.11	4.69	0.06	5.59	-1.65	4.36	--	--	--	--
Benchmark (EUR)	0.35	-0.65	-0.54	-0.49	-0.47	-0.47	--	--	--	--

	12-month rolling returns									
	2021-2022	2020-2021	2019-2020	2018-2019	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014	2012-2013
Short-dated high yield bond strategy (GBP)	-3.68	5.41	0.43	6.93	-0.41	5.23	7.95	4.06	1.54	7.62
Benchmark (GBP)	1.03	-0.03	0.17	0.68	0.60	0.23	0.38	0.45	0.42	0.39
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The short-dated high yield bond composites (C0810 and C0810SCEUR) are gross of fees and in GBP and EUR respectively, with inception dates of 30-Nov-2009 and 30-Nov-2016. Effective 1 November 2021, the benchmark for C0810 changed from the 3-Month GBP LIBOR to SONIA (Sterling Overnight Index Average) (90-day compounded). All benchmark past performance prior to this date was calculated against 3-Month GBP LIBOR. The benchmark for C0810SCEUR is the euro short-term rate (€STR). Fees and charges apply and can have a material effect on the performance of your investment.

IMPORTANT INFORMATION

RISK DISCLOSURES

Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

The performance results shown, whether net or gross of investment management fees, reflect the reinvestment of dividends and/or income and other earnings. Any gross of fees performance does not include fees, taxes and charges and these can have a material detrimental effect on the performance of an investment. Taxes and certain charges, such as currency conversion charges may depend on the individual situation of each investor and are subject to change in future.

Any target performance aims are not a guarantee, may not be achieved and a capital loss may occur. The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies over time, and/or prevailing market conditions and are not an exact indicator. They are speculative in nature and are only an estimate. What you will get will vary depending on how the market performs and how long you keep the investment/product. Strategies which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.

Any projections or forecasts contained herein are based upon certain assumptions considered reasonable. Projections are speculative in nature and some or all of the assumptions underlying the projections may not materialize or vary significantly from the actual results. Accordingly, the projections are only an estimate.

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

BNY Mellon Global Short-Dated High Yield Bond Fund

Objective/Performance Risk: There is no guarantee that the Fund will achieve its objectives.

Currency Risk: 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 Risk: 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.

Changes in Interest Rates & Inflation Risk: Investments in bonds/money market securities are affected by interest rates and inflation trends which may negatively affect the value of the Fund.

Credit Ratings and Unrated Securities Risk: 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.

Credit Risk: The issuer of a security held by the Fund may not pay income or repay capital to the Fund when due.

Emerging Markets Risk: Emerging Markets have additional risks due to less-developed market practices.

Liquidity Risk: The Fund may not always find another party willing to purchase an asset that the Fund wants to sell which could impact the Fund's ability to sell the asset or to sell the asset at its current value.

Share Class Hedging Risk: 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.

Counterparty Risk: 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.

FIND OUT MORE

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