Reasons To Consider Insight's* GLOBAL SHORT-DATED HIGH YIELD BOND STRATEGY

February 2025

KEY STATS[1]:

Average expected maturity (years): 1.92

Average yield to expected redemption (USD, %): 7.10

THE VALUE OF INVESTMENTS CAN FALL. INVESTORS MAY NOT GET BACK THE AMOUNT INVESTED. INCOME FROM INVESTMENTS MAY VARY AND IS NOT GUARANTEED.

OUR CORE BELIEF: FOCUS ON VISIBLE CASHFLOWS

Insight's global short-dated high yield strategy targets issues which we believe will be repaid within a two-year time horizon. Ideally, the companies in which we invest 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, which can be used by the company to repay its debt, or to refinance its debt on more attractive terms.

Once we have identified a potential target for investment, regular contact with management follows to ensure the plan is progressing as expected. 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 the plan is deviating from the expected timeline, we sell 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, this approach can consistently produce attractive levels of income while minimising earnings and default risk.

A STRONG RECORD OF PROTECTING OUR CLIENTS FROM DEFAULTS

Our focus on visible cashflows and the monitoring we undertake means we expect to avoid defaults under normal market conditions, allowing our clients to fully enjoy the yields available in the asset class.

We follow other simple rules to make our process even more robust. We avoid companies with a short track record or that are asset-light. We also don't believe that CCC-rated issues offer a yield premium sufficient to compensate for higher default risk, so we generally avoid them (see Figure 1). An exception to this is the subordinated debt of higher-rated issuers, where the default risk is that of the higher-rated BB or B-rated company.

This process has worked well to protect our clients' assets from defaults over time (see Figure 2), and we would expect it to continue to do so in the future.

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

BB	0.3%
B	0.9%
CCC	8.9%
Aggregate high yield	4.6%

1. Source: Insight. Data as at 31 December 2024.
2. Source: Moody's Annual default study as at August 2024. Default data covers years between 1920 and 2024.

*** Investment Managers are appointed by BNY Mellon Investment Management EMEA Limited (BNYMIM EMEA), BNY Mellon Fund Managers Limited (BNYMFM), BNY Mellon Fund Management (Luxembourg) S.A. (BNY MFML) 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, BNY MFML or the BNY Mellon funds.**

This paper was written by Insight Investment. As such, it is in its voice as opposed to that of BNY Investments.

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Figure 2: Default Rates[1]

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Global HY universe: corporate issuers	45	72	73	64	105	145	116	73	98	219	54	90	163	144
Insight Global Short Dated High Yield Strategy	0	0	0	2	0	0	0	0	0	1	0	0	0	0

Insight classifies a default as a loss of more than 50 points on one of its investments – far more conservative than market convention.

1. Source: Insight. Data as at 31 December 2024. The global HY universe constitutes of global issuers rated by Moody's based on their rating at the beginning of the year.

WHY WE BELIEVE A SHORT-DATED APPROACH WORKS

Duration generally doesn't pay in high yield markets

When credit rating agencies give a credit rating, it is given for all the debt issued by a company of the same seniority, regardless of the maturity of that debt. But the further into the future you go, the greater the uncertainty there is about the risks a company faces, and the probability of default rises accordingly (see Figure 3). Credit spreads in high yield markets tend to be relatively flat, especially when yield curves are inverted, so there is generally little benefit to taking duration risk unless you have a particularly strong view on the market outlook. In our view, this means investors in short-dated high yield are disproportionately paid for the credit risk they are taking.

Exploiting call premiums can enhance returns

Most high yield bonds have structures which allow the issuer to redeem the issue at set future dates before its final maturity. This is very different to the investment grade market where bonds generally have a single maturity date. These redeemable dates are known as call dates, and generally an issuer has to pay a price above 100 to redeem or 'call' the bond early. The prices and dates at which the bond can be called are established on the day the bond is issued and are legally binding. The earlier the call, the higher the price the issuer needs to pay, declining over time to 100 at final maturity. For example, a bond may mature in five years' time at 100 but be callable in two years at 101. Once markets expect a bond to be called, the price of the bond tends to gravitate towards the call price and the investor makes a short-term gain.

Our focus on visible cashflows means that we are actively seeking bonds that we believe will be called early. This allows us to exploit call premiums to add returns and also means that we have potential for regular liquidity from coupons and call payments, which we can use to seek out new opportunities. On average 35%-50% of our holdings redeem each year (see Figure 4).

Figure 3: Default risk rises with time, but spreads don't[1]

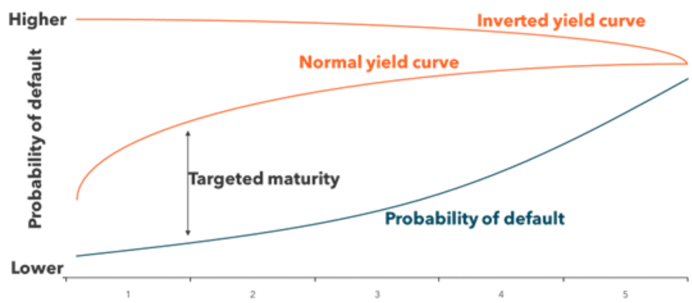
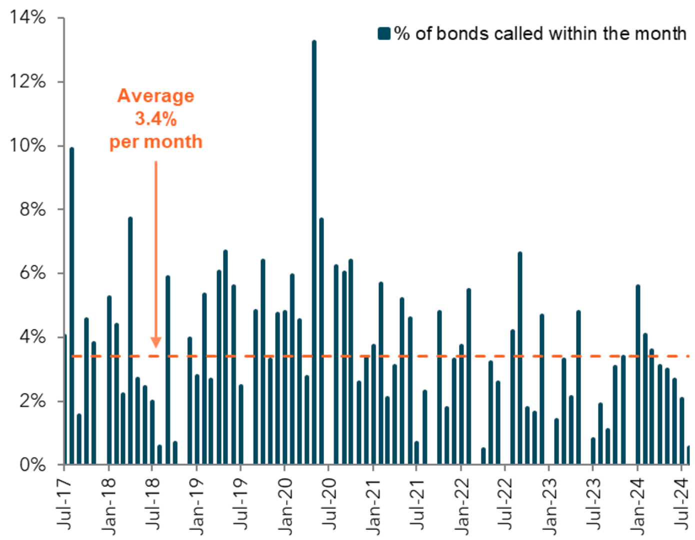


Figure 4: Constant inflows from bond redemptions[2]



1. For illustrative purposes only.

2. Insight. Data as at 30 September 2024.

PERFORMANCE

PAST PERFORMANCE IS NOT A GUIDE TO FUTURE PERFORMANCE.

TEN-YEAR PERFORMANCE RECORD TO 31 DECEMBER 2024

	Calendar year returns									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Insight Short-Dated High Yield Bond Composite (USD)	9.76	14.71	-3.14	5.63	1.87	8.84	1.24	6.47	--	--
Benchmark (USD)	5.36	4.90	4.90	1.17	0.06	0.56	2.28	2.28	--	--
Insight Short-Dated High Yield Bond Composite (GBP)	9.52	14.05	-3.68	5.41	0.43	6.93	-0.41	5.23	7.95	4.06
Benchmark (GBP)	5.19	4.34	1.03	-0.03	0.17	0.68	0.60	0.23	0.38	0.45
Insight Short-Dated High Yield Bond Composite (EUR)	7.96	12.36	-5.11	4.69	0.06	5.59	-1.65	4.36	--	--
Benchmark (EUR)	3.60	3.27	0.35	-0.65	-0.54	-0.49	-0.47	-0.47	--	--

	12-month rolling returns									
	2023-2024	2022-2023	2021-2022	2020-2021	2019-2020	2018-2019	2017-2018	2016-2017	2015-2016	2014-2015
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Returns may increase or decrease as a result of currency fluctuations.

Source: Insight. Performance calculated as total return, income reinvested, gross of fees, in USD, GBP and EUR. Fees and charges apply and can have a material effect on the performance of your investment. Insight's short-dated high yield bond strategy (USD) composite inception date: 31 July 2013. No components within composite during July 2015 to November 2016 hence returns for the missing period is not available. Effective 1 November 2021, the comparator benchmark changed from the 3-Month USD LIBOR to the SOFR (Secured Overnight Financing Rate) (90-day compounded). All benchmark past performance prior to this date was calculated against 3-Month USD LIBOR. Insight's short-dated high yield bond strategy (GBP) composite inception date: 31 January 2009. Effective 1 November 2021, the comparator benchmark changed from 3-Month GBP LIBID to SONIA. All benchmark past performance prior to this date was calculated against 3-Month GBP LIBID. Insight's short-dated high yield bond strategy (EUR) composite inception date: 30 November 2016. Effective 1 January 2022, the comparator benchmark changed from the EURIBOR to 3-Month EURIBOR. All benchmark past performance prior to this date was calculated against EURIBOR. Insight claims compliance with the Global Investment Performance Standards (GIPS). A GIPS compliant presentation is available upon request via your BNY Investments EMEA contact.

STRATEGY OUTLOOK

We think the current environment is extremely positive for high yield investors. Central banks are easing which should support growth, and earnings are generally coming in higher than expectations. Issuers have returned to markets in 2024 to tap into elevated levels of demand and this is presenting abundant opportunities to add new names and lock in high coupon levels for at least two years. Supply is dominated by refinancing activity, with existing issues often being called early at a premium to market levels.

We believe the current market dynamics are unlikely to change significantly for some time. Investors waiting for higher spreads before committing may miss out on a period of high absolute yields, which have the potential to compound over time. Returns are expected to be primarily driven by income, with opportunities to enhance them through careful security selection and the exploitation of call premiums. The combination of resilient growth, better-than-expected earnings, and improved capital market access has kept defaults at low levels, with no significant signs of stress in the broader market. Additionally, the recent decline in interest rates should support economic activity and boost corporate revenues.

For those concerned about higher yields in longer maturities, the high yield asset class is largely rate insensitive with returns generally dependent on the performance of individual companies. This is amplified in the short duration sector of the market where interest rate volatility is minimised, providing protection if we see continued volatility in longer yields.

KEY INVESTMENT RISKS

- **China Interbank Bond Market and Bond Connect risk:** The Strategy may invest in China interbank bond market through connection between the related Mainland and Hong Kong financial infrastructure institutions. These may be subject to regulatory changes, settlement risk and quota limitations. An operational constraint such as a suspension in trading could negatively affect the Strategy 's ability to achieve its investment objective.
- **Geographic Concentration Risk:** Where the Strategy invests significantly in a single market, this may have a material impact on the value of the portfolio.
- **Objective/Performance Risk:** There is no guarantee that the Strategy will achieve its objectives.
- **Currency Risk:** This Strategy invests in international markets which means it is exposed to changes in currency rates which could affect the value of the portfolio.
- **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 Strategy 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 portfolio.
- **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 portfolio.
- **Credit Risk:** The issuer of a security held by the Strategy may not pay income or repay capital to the Strategy when due.
- **Emerging Markets Risk:** Emerging Markets have additional risks due to less-developed market practices.
- **Liquidity Risk:** The Strategy may not always find another party willing to purchase an asset that the Strategy wants to sell which could impact the Strategy 's ability to sell the asset or to sell the asset at its current value.
- **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 Strategy to financial loss.
- **Environmental, Social and Governance (ESG) Investment Approach Risk:** The Strategy 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 Strategy '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 Strategy 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.

Document ID: 2317302. Expiry: 06 June 2025.