Assessment of value: BNY Mellon Investment Funds

BNY Mellon Fund Managers Ltd

October 2020

BNY MELLON
INVESTMENT MANAGEMENT

Dear investors,

As the board of BNY Mellon Fund Managers Ltd, the **authorised corporate director** for BNY Mellon Investment Funds (BNY MIF), we are committed to creating and maintaining investor value within our funds. We, along with BNY Mellon Investment Management, believe in providing clients with the best of both worlds: access to specialist fund managers, backed by the strength, scale and stewardship of BNY Mellon, one of the largest financial companies in the world.

In this report, we take an objective appraisal of the 40 funds in the UK-domiciled BNY MIF range over the year ending 30 June 2020. This time frame includes a difficult investment period. The past 12 months has seen global markets react strongly and with increased **volatility** to the Covid-19 pandemic. Brexit, trade disputes and civil unrest have added to the unsettled investment environment.

Our assessment of value has not been based solely on the criteria the UK regulator outlined for analysis. We also examined additional factors we consider to be of importance to our clients, such as areas of communication during times of market stress – like in March 2020.

Analysis was conducted using multiple individual data sets for each fund, supplemented by our own evaluation of the funds' objectives and achievements.

Where we could, data and expertise from three different independent consultants – a London-based fund research group specialising in the calculations of fund fees and expenses, a direct-to-consumer research firm and a specialist **asset servicing** cost and quality of services provider – were used to substantiate our own data.

OUR RESULTS

I am pleased to say in most cases, the analysis shows we are delivering value to our clients. Value to us doesn't just mean cost. Value is a combination of investment performance, product goals and design, transparency, charges and quality of service. And there are areas where we can do better. In such cases, we have highlighted where we believe remedial action may be required. We will seek to address these over the coming months.

We hope the publication of this report enhances transparency for our clients. On behalf of the board, I hope you find it both accessible and helpful. We welcome any comments or feedback you may have so we can improve future reports (email: **clientservices@bnymellon.com**).

Carole

Yours faithfully,

Carole Judd
Chair of BNY Mellon Fund Managers Ltd Board of Directors

Putting you, the investor, first

As the board overseeing the funds in which you are invested, caring for our clients has always been a high priority for us. As part of our wider commitment to continuous improvement, we constantly look for new ways to improve insight and transparency with respect to your investments.

Providing world-class client experience is critically important to us, which is why we strive to continually improve and enhance services. For instance, over the course of the past 18 months, we have worked to improve the clarity of our letters to you. While more can be done, we believe we are headed in the right direction by minimising the jargon and legal language used to communicate with our clients.

We are always looking to improve upon the way (and the speed) with which we respond to any concerns raised by investors. Likewise we continually look for new, quicker ways to deliver data and information on products.

We also place continued importance on the need for context. Clients can read thoughtful articles on the latest trends and events affecting investment markets and **asset classes** on **www.bnymellonim.com** as well as in regular publications such as our bi-annual retail magazine, *Money Matters*.

CHALLENGING TIMES

The Covid-19 pandemic has been challenging for all of us, in many ways. It has certainly cast a long shadow over the tail-end of this assessment's review period. It has also fundamentally changed the way we work and communicate.

Throughout the crisis we worked to ensure we offered investors a high level of communication. For instance, at the height of market falls in March 2020, BNY Mellon Investment Management (BNYM IM) turned its global outlook website into a Covid-19 hub, featuring the latest market commentaries and views. That website saw an 890% rise in traffic in March alone. It was also cited in the press as an example of a company with "accessible content" on Covid-19.[1]

It wasn't the only action taken by BNYM IM or us.

- In response to client queries, we offered frequent commentaries highlighting portfolio activities.
- Amid a country-wide lockdown, we held our first two virtual shareholder meetings on proposed fund mergers. Neither merger went ahead but we view enabling shareholders to have their say, a success.
- We substantially increased consumer content through the spring. These articles were aimed at reassuring investors, providing insight and context to the historic market falls. These articles featured in the summer edition of *Money Matters*.
- While BNYM IM's business recovery plans had been regularly tested, like the rest of the industry, never for so long. With 99% of staff working from home for the final two months of this report's review period, there were no reported errors in any of the funds within the BNY Mellon Investment Funds range.
- When companies started cutting or suspending their **dividends**, advance shareholder notifications were posted on BNYM IM's websites, forewarning clients the income from their funds was likely to be impacted.
- None of our funds suspended dealing or payment of its interim **dividend** payment to investors.

[1] Ignites Europe. Prehistoric fund web sites disappoint on Covid-19 content. 3 June 2020.

Meet the Board

Carole Judd
board chair (independent)

Carole joined the board in 2019, first as a director and then on 1 September 2020 became chair and responsible for the oversight of the funds. She has over 30 years' experience in asset management and investment consulting.

Greg Brisk
executive director

Head of governance at BNY Mellon Investment Management, Greg (who was board chair for the period covered by this report) is focused on best practices to protect shareholder interests in both fund investor and BNY Mellon-owned entities. Greg has worked in the finance industry since 1982 and at BNY Mellon since 1999.

Anne-Marie McConnon
executive director

Anne-Marie is the global chief marketing officer for BNY Mellon Investment Management. Her career spans more than 20 years and she has been recognised as Investment Week's Marketer of the Year on several occasions.

Marc Saluzzi
independent director

In 2015 Marc retired from PwC Luxembourg where he worked since 1986 and where, between 2006 and 2010, he led the network's Global Asset Management practice. He has over 30 years' experience in asset management across both the US and Luxembourg.

Hilary Lopez
executive director

Hilary is the head of intermediary distribution in Europe for BNY Mellon Investment Management EMEA, where she is also a member of the Investment Management Global & EMEA Distribution Executive Committees.

Gerald Rehn
executive director

Gerald is head of international product & governance at BNY Mellon Investment Management, having joined the group in 2013. He oversees BNY Mellon Investment Management EMEA's product strategy, development, performance oversight, client services and fund governance and operations functions.

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Executive summary

What did we do?

In this Assessment of Value report we examined the 40 funds in the BNY Mellon Investment Funds (BNY MIF) range. Of these, seven were not given a rating due to insufficient track record in all assessment areas.

In analysing the funds we followed the seven-factor criteria as outlined by the UK regulator, the **Financial Conduct Authority** (**FCA**). We used a variety of data in each of these areas including inputs, data and opinions from several different independent consultants. This included a London-based fund research group specialising in the calculations of fund fees and expenses, a direct-to-consumer research firm and a specialist **asset servicing** cost and quality of services provider.

We used a matrix of more than a hundred different data sets to arrive at our conclusions.

This data covered different time frames, according to what was being measured. Non-performance-related data was assessed as at 30 June 2020. All performance-related data covers the varied time periods stated in each of the fund's individual objectives, as outlined in the prospectus. All had an end date of 30 June 2020.

To make this analysis easier to understand we grouped the **FCA's** criteria into four areas: cost, performance, quality of service and fair treatment of investors.

Financial Conduct Authority's Assessment categories	Our Assessment categories
PERFORMANCE The net-of-fees return provided to investors in the fund, this is to be measured over the appropriate timescale and against the fund's objective, as stated in the prospectus.	PERFORMANCE
QUALITY OF SERVICE The range and the quality of service provided to holders of the fund. This is to take into account services provided to the fund by third parties, along with the services investors receive.	QUALITY OF SERVICE
ECONOMIES OF SCALE An assessment of whether savings were able to be achieved due to greater fund size and whether these savings were passed on to investors. **CLASSES OF UNITS/SHARES** An assessment of whether all the investors within a fund are in the appropriate investment class, and whether they could be in a cheaper class for their investor type and investment amount.	FAIR TREATMENT OF INVESTORS
COMPARABLE SERVICES This is an internal comparison, similar to comparable market rates but based on comparable services offered by the firm. **COSTS** A breakdown of all costs borne by the fund, and an identification of whether that charge was fair or not. Costs will not only related to annual charges but also other costs charged by the fund, relative to the cost base. **COMPARABLE MARKET RATES** A comparison between the charges of the fund and those levied by similar funds in the market. Comparability is determined by the size, investment objectives and policies of the fund.	COST

Conclusions

Out of the 33 funds in the BNY MIF range with sufficient track record for rating, 26 (79%) were rated green by the board – showing value for money. Seven (21%) of the eligible range – were rated amber, showing some value. There were none the board felt offered no value to investors.

For more details on the ratings of the seven amber-rated funds in the BNY MIF range – and our intended actions to address any failings – **please click on the names below**.

- **BNY Mellon Corporate Bond Fund**
- **BNY Mellon Emerging Income Fund**
- **BNY Mellon Equity Income Fund**
- **BNY Mellon Global Absolute Return Fund**
- **BNY Mellon Global Multi-Strategy Fund**
- **BNY Mellon Inflation-Linked Corporate Bond Fund**
- **BNY Mellon Real Return Fund**

Across the range, there were six funds in which we found the costs to be too high. In some cases they were very high relative to their respective peers for **retail investors**.

In four funds, we found the cost gap between institutional and retail shareholders to be disproportionately wide versus similar funds. You'll see in the following summary table that in these cases we split the sub-ratings in these funds.

We are now examining a range of options in order to lower costs in these funds. In the six funds failing to meet some of their performance objectives, we are reviewing the situation for each, taking action to address any failings. For some, the impact of the Covid-19 pandemic market **volatility** in the spring was the main reason for the failure.

For others, underperformance has been a feature for some time and even ahead of this review we started to look at ways to redress this.

We had one fund with an overall green rating but with amber ratings in two underlying categories. These were merited based on the quantitative criteria we used. However, the more qualitative analysis led us to still view the fund as offering value.

Please **click on fund name** for more details.

- **BNY Mellon Global Dynamic Bond Fund**

There were also the seven funds in the BNY MIF range with an insufficient performance track record for full analysis. As we could not assess all metrics, we rated what criteria we could and left the overall rating as undecided (marked as grey on the summary table on page 10).

WHAT'S IN A SHARE CLASS?

Like most investment funds, ours have multiple share classes. This is because there are different types of investors – retail, institutional and **platforms** – and varying ways to invest. By the latter we mean accumulation or income. Typically if you're looking to grow your capital you may re-invest your income and as such you are likely to invest in accumulation shares. If you invest via the income shares, you will receive the income in the form of **dividends**.

In this report you will see us refer to various share classes. Here is what they mean and how we colloquially refer to them in the text of this report. All are in sterling.

Class (income and accumulation)	Typical investor and description	Our reference in this report
A Shares: sterling shares	**Retail investors (with or without an adviser)** Legacy direct share class. Commissions paid to advisers are included in the price.	**Bundled or legacy retail**
B Shares	**Retail investors (with or without an adviser)** No commissions paid to advisers are included in the price.	**Contemporary retail**
W Shares	**Institutional investors and Retail investors via platforms** Introduced post RDR (**Retail Distribution Review**). Has high minimum investment threshold but no advisory commissions. By **platforms** we mean fund centres often used by financial advisers buying on behalf of their clients.	**Platform**
Institutional	**Institutional investors** Share class designed for **institutional investors** with high minimum threshold.	**Institutional**

Our results

Our results

FCA Assessment Criteria	Performance	Quality of Service	Economies of Scale; Classes of Units/ Shares	Comparable Services; Costs General; Comparable Market Rates	Overall Rating
BNY Mellon Assessment Criteria	**Performance**	**Quality of Service**	**Fair Treatment of Investors**	**Cost**	
BNY Mellon 50/50 Global Equity Fund	Green	Green	Green	Green	Green
BNY Mellon Asian Income Fund	Green	Green	Green	Green	Green
BNY Mellon Continental European Fund	Green	Green	Green	Green	Green
BNY Mellon Corporate Bond Fund	Yellow	Green	Green	Red	Yellow
BNY Mellon Emerging Income Fund	Yellow	Green	Green	Green	Yellow
BNY Mellon Equity Income Booster Fund	Green	Green	Green	Green	Green
BNY Mellon Equity Income Fund	Yellow	Green	Green	Green	Yellow
BNY Mellon Global Absolute Return Fund	Yellow	Green	Green	Yellow	Yellow
BNY Mellon Global Dynamic Bond Fund	Yellow	Green	Green	Yellow/Green	Green
BNY Mellon Global Dynamic Bond Income Fund	Green	Green	Green	Green	Green
BNY Mellon Global Emerging Markets Fund	Green	Green	Green	Green	Green
BNY Mellon Global Equity Fund	Green	Green	Green	Green	Green
BNY Mellon Global High Yield Fund	Green	Green	Green	Green	Green
BNY Mellon Global Income Fund	Green	Green	Green	Green	Green
BNY Mellon Global Infrastructure Income Fund	Grey	Green	Green	Green	Grey
BNY Mellon Global Multi-Strategy Fund	Green	Green	Green	Red/Green	Yellow
BNY Mellon Global Opportunities Fund	Green	Green	Green	Green	Green
BNY Mellon Index-Linked Gilt Fund	Green	Green	Green	Green	Green
BNY Mellon Inflation-Linked Corporate Bond Fund	Green	Green	Green	Red/Green	Yellow
BNY Mellon International Bond Fund	Green	Green	Green	Green	Green
BNY Mellon Long Corporate Bond Fund	Green	Green	Green	Green	Green
BNY Mellon Long Gilt Fund	Green	Green	Green	Green	Green
BNY Mellon Long-Term Global Equity Fund	Green	Green	Green	Green	Green
BNY Mellon Multi-Asset Balanced Fund	Green	Green	Green	Green	Green
BNY Mellon Multi-Asset Diversified Return Fund	Green	Green	Green	Green	Green
BNY Mellon Multi-Asset Global Balanced Fund	Green	Green	Green	Green	Green
BNY Mellon Multi-Asset Growth Fund	Green	Green	Green	Green	Green
BNY Mellon Multi-Asset Income Fund	Green	Green	Green	Green	Green
BNY Mellon Oriental Fund	Green	Green	Green	Green	Green
BNY Mellon Real Return Fund	Yellow	Green	Green	Yellow/Green	Yellow
BNY Mellon Sustainable Global Dynamic Bond Fund	Grey	Green	Green	Green	Grey
BNY Mellon Sustainable Global Equity Income Fund	Grey	Green	Green	Green	Grey
BNY Mellon Sustainable Global Equity Fund	Grey	Green	Green	Green	Grey
BNY Mellon Sustainable Real Return Fund	Grey	Green	Green	Green	Grey
BNY Mellon Sustainable Sterling Bond Fund	Grey	Green	Green	Green	Grey
BNY Mellon UK Equity Fund	Green	Green	Green	Green	Green
BNY Mellon UK Income Fund	Green	Green	Green	Green	Green
BNY Mellon UK Opportunities Fund	Green	Green	Green	Green	Green
BNY Mellon US Equity Income Fund	Grey	Green	Green	Green	Grey
BNY Mellon US Opportunities Fund	Green	Green	Green	Green	Green

KEY

- Green: Provided good value to investors over the assessment period
- Yellow: Provided value but merits further action or monitoring to meet our value criteria
- Red: Has not provided good value
- Grey: Insufficient track record

Analysis & findings

In this section we explain what we analysed, how, and the conclusions we reached.

PERFORMANCE

This is not just about the absolute amount of money gained or lost. Instead this assessment looks at whether the fund performed as expected. Did it meet its objective(s)? If it didn't, why not?

For instance, if a fund seeks to achieve capital growth over a set time period, we looked deeper to see what happened over that period and why. We used data from external consultants to provide independent peer analysis to help with this relative assessment.

In cases where a fund has multiple objectives and was found to have partially met these, an amber rating was given while red would have been used for any failing all objectives.

- Where a fund's objective is capital growth, **total return** performance was assessed.
- Where a fund's objective is income, **yield** was assessed.
- If the objective was both income and capital growth, **yield** was used to judge income and price return for capital growth.

In measuring the returns achieved, where possible we used the funds' primary share class, W. This is BNY MIF's 'platform' **share class** and does not feature on-going commission payments to advisers. Other share classes have been used when either a W **share class** does not exist or a W share class has insufficient history.

Unless otherwise described in a fund's objective, total return performance was measured in this section, gross of **annual management charges**. (Costs were analysed separately). All time periods examined ended 30 June 2020 or as at with respect to **yield**.

Our findings

Although all funds met some of their performance objectives, six were found to have only met some of their stated targets. No fund was given a red rating in this category.

In looking at the returns, the board did take into account the volatile end of the review period. Market falls in March 2020 were steep. In that month, the longest-running S&P 500 bull market (when prices increase) in history came to an end. At 22 days, it was also one of the fastest ever falls into a bear market (when prices fall by 20% or more) for the index.[2]

However, many of the funds examined had longer term objectives, some of which included **rolling** time frames. Managers of funds found to be failing on some of their performance objectives were asked for an explanation.

The board also sought insight into any plans the manager had to get the fund back on track to meeting all of its performance objectives. The board will continue to monitor these funds closely to see if the shortfalls experienced have been rectified. In one case the objective of the fund itself is now under review.

The six funds with amber scores for performance were:

(Click on the fund name for more details as to this assessment)

- **BNY Mellon Corporate Bond Fund**
- **BNY Mellon Emerging Income Fund**
- **BNY Mellon Equity Income Fund**
- **BNY Mellon Global Absolute Return Fund**
- **BNY Mellon Global Dynamic Bond Fund**
- **BNY Mellon Real Return Fund**

QUALITY OF SERVICE

As the board governing these funds, we are ultimately responsible for the service provided to the funds and to investors within them.

All of the services examined in this measurement are shared resources. For instance, all the funds use the same third party service providers such as: **fund accountant**, **transfer agent**, **auditor** and **custodian**.

This means assessments in this category are much more uniform.

Data from around a dozen different sources helped us to arrive at our conclusions.

These included:

- Errors and issues logs from across the different service providers
- Client complaints log
- Client survey
- Website data
- Direct client feedback

We looked at data that applied to all funds as well as those that gave us a more individual picture.

For instance, we examined BNYM IM's annual investor survey, which applies to the entire fund range.

At the same time we looked at the complaints received over the past year and client feedback for any fund specific comments.

[2] CNBC. This was the fastest 30% sell-off ever, exceeding the pace of declines during the Great Depression. 23 March 2020.

Analysis & findings (continued)

Our findings

We have rated all funds green on this metric. There were no key areas for concern raised in any of the reports or information reviewed. Overall, we have strong relationships with our third party service providers. While we believe there are always areas that can be improved upon, such as response times, we did not identify any major issues or cause for concern.

The results of BNYM IM's annual investor survey[3] suggest above average service on many criteria, including fair and transparent charges and good and clear communication.

BNYM IM is strongly felt to be a reliable company (93%), providing good customer service (82%) and is considered easy to do business with (79%). The main reasons for dissatisfaction were cited as being falling returns and the need for greater communication and we are looking at ways to improve on both these measurements.

As noted earlier in this report, we did substantially increase our communication amid the Covid market falls. At the same time we have worked to improve our overall communication style by using more plain English in our letters to shareholders.

FAIR TREATMENT OF INVESTORS

This component in our assessment includes the FCA's economies of scale criteria. In theory this means the larger a fund is, the better able it should be to reduce its costs and pass on that saving to its investors. There was much discussion by the board on this component of the value for money assessment as there are many ways to define and deliver economies of scale.

For instance, using the collective buying power of our funds, BNY Mellon Fund Managers has negotiated competitive pricing with service providers. One way in which we have passed on these benefits is by moving more investors to our B shares, a project that was completed in July.

In our B shares, the cost of many additional expenses – excluding **custody** – is set at 8p for every £100 invested (or 0.08%). In our legacy retail **share classes**, these costs are 10p (0.1%) for every £100 invested.

Where service fees are more fund specific, such as for **custody**, we can also manually cap those costs to adjust for a fund's unique circumstances, when needed.

Within our analysis, where we focused on weighing up on-going charges versus the size of the individual funds over the past year, we examined whether such a cap on fees was in place, or if it should be, as a way to protect investors in smaller funds.

Another way we have applied economies of scale is by absorbing the rising costs of doing business that has resulted from increased financial regulations (especially since the 2008 financial crisis).

Classes in units/shares is another part of the FCA's criteria we believe comes under the fair treatment of investors. For this analysis we looked to see if our **retail investors** were in the lowest fee **share class** available to them.

Our findings

We have rated all funds in this category as green. However, while we are comfortable with the methodology we have used to assess these funds in 2020, we think we can do more.

In our evaluation we found the growing size of the funds commensurate with its costs to be acceptable. Whether the costs were too high on an absolute basis was a question to be answered within the cost analysis part of this review.

We did identify a few small funds where we think it would be appropriate to implement a cap on expenses for the benefit of its investors. This is something not every fund provider can offer but we see it as another way in which we can pass on economies of scale for investors' benefit.

Going forward, we are establishing a more systematic monitoring mechanism to identify the necessity of any such caps before costs increase for investors.

With respect to investors being in the right **share class**, we initiated a project to move shareholders from the legacy retail sterling share class (A shares) into the more contemporary B retail shares (which do not contain adviser commissions).

We have been actively encouraging **retail investors** to switch to the lower-priced B shares, which have been available for some time as part of our online InvestorZone offering. However, despite this encouragement not everyone eligible for the lower cost shares signed up to the InvestorZone portal. As such, in 2020 a project to convert all direct **retail investors** in the sterling income and accumulation shares (legacy retail) over to corresponding B shares was started.

By 4 July 2020, £339m – held across 21,858 share holdings – were moved to the lower fee paying B share class. This resulted in a reduced annual fee for more than 15,000 clients.

COST

There are three components to the FCA's cost criteria, which we amalgamated into a single unified rating – where possible. Much like other categories, there are many ways to assess costs.

We tried to avoid a generic approach, taking each fund on its own unique merits. And while a relatively high fee can be a drag on returns, as the FCA agreed, costs shouldn't be examined in isolation.

[3] This annual survey of BNYM IM's direct retail investor base has taken place since 2013. It involved 250 telephone interviews with investors in June 2020.

Analysis & findings (continued)

Costs need to be looked at versus competitors doing the same thing and in relation to the outcome. As such, if the absolute performance of an apparently expensive fund was not adequate to justify the cost incurred, we were more circumspect in its rating.

We also examined how our funds stack up in comparison to similar funds on offer from different providers. We also looked at how the fees charged differ for **retail investors**, who typically invest a small amount and those for **institutional investors**, who typically invest large sums thereby commanding a lower fee.

The preliminary review stage examined our retail (B) and bundled (A) **share classes**. (See page 8 of this report for the share class definitions).

The board then examined additional **share classes** on these funds – particularly W (platform **share class**) and Institutional. These normally feature lower **ongoing charges** (OCF) owing to the larger minimum investment thresholds they feature.

If, based on these assessments, a fund was flagged as deserving of an amber or red rating, we dug a bit deeper. We looked at the reasons why there might be added expenses – was it because the fund was too small? Or was it because it had comparatively higher expenses such as **custody** costs due to the markets in which it trades.

Using this information as well as composition of the investor base for each fund undergoing additional review, in some instances awarded with split ratings – one representing retail and one, institutional.

Our findings

Across the eligible fund range, we found six funds failed to meet the entirety of our value criteria in this category.

Of these six funds, the board felt four should have split cost ratings based on the separate value present in the direct to retail versus institutional or **platform** share classes. In the main, the funds with split ratings were singled out as their investor make-up was predominantly institutional and/or **platform** shares. We didn't think it was fair to ignore the costs that were found to offer good value, relative to peers, for the vast majority of the funds' investors. In fact all four were awarded green ratings in their institutional and **platform** share classes.

We will analyse the costs on these funds, including operating expenses and annual charges, with the aim to reduce them where possible. In cases where we cannot reduce the fees, we may look to close or merge small funds if we believe it to be in the best interest of investors.

However, in some cases the costs for the retail share classes were also significantly higher than similar funds.

As such, despite the partial green scores in these funds, action will still be taken on the weaker retail rating. Redress in this area is based on the individual fund and will involve implementing caps on expenses, where possible, or reducing the annual charges on select share classes.

Click on the fund names for details of their individual assessment and corrective actions.

- **BNY Mellon Corporate Bond Fund**
- **BNY Mellon Global Absolute Return Fund**
- **BNY Mellon Global Multi-Strategy Fund**
- **BNY Mellon Inflation-Linked Corporate Bond Fund**
- **BNY Mellon Global Dynamic Bond Fund**
- **BNY Mellon Real Return Fund**

OVERALL SCORING

Given the funds in this range are so varied, the board wanted to avoid any "one-size-fits-all" methodology. Instead, following analysis in each of the four broad categories and ratings given within these areas, the board re-assessed all funds receiving any score below green.

At this stage, the board looked to understand the reason behind any relative issues, how long they have existed and any steps that may have already been taken to correct such hurdles.

Similarly, further interrogation of the data was taken. On funds deserving of a red rating on the retail share class but amber or green on the institutional share class, the weight of the fund's shareholder base helped to determine the final score.

For instance, in order for the board to lean towards the institutional share class rating, ownership had to be more than just a simple majority. The depth of both the cost discrepancy between the share classes and departure from performance objectives as well as the length of the latter were also considerations for the final scores.

Amber-rated funds

BNY Mellon Corporate Bond Fund

OUR ANALYSIS

The BNY Mellon Corporate Bond Fund, managed by Insight Investment, received an amber rating for its performance and a red rating for cost. Having noticed issues with the fund ahead of this review, significant remedial action has already been taken, to good effect. This is why the fund was given an overall amber rating – showing some value – instead of red.

Over the full review period for this assessment, ending 30 June 2020, the fund has generated positive returns but has not outperformed its **benchmark** (the Markit iBoxx GBP Collateralized & Corporate) **index** by 1.5% as per its objective.

In October 2019, Insight Investment replaced the manager on the portfolio. Since then, to the end of the review period in June 2020, the 1.5% outperformance objective has been met. In fact, as a result of this short time period, the fund is now in the top quartile (25%) of the **Investment Association's Sterling Corporate Bond sector** based on its performance, net-of-fees. It is also top quartile over one and five years within this peer group.

We believe as at the end of this review period it represented some value to investors and is steadily improving. However, the longer-term underperformance versus the 1.5% **benchmark** outperformance objective still necessitated an amber rating in the performance category.

With respect to costs, we found the fund to be expensive and by a large enough margin to warrant a red score in this category.

WHAT HAPPENED?

Through much of 2019 and before the manager change, the fund lagged its **benchmark** due in part to its more defensive positioning. Favouring high quality bonds, the fund was more exposed to **quasi-government** and **asset-backed bonds** when lower quality **bonds** did better.

However, heading into 2020, the fund benefited from this quality stance. Positions in **investment grade bonds** fared well following the decisive UK general election result in December. Then, like many of its peers, the fund suffered from the Covid-related market **volatility** at the end of the review period, although its returns remained positive.

With respect to costs, by July, 428 holdings, worth a total of £4.4m had been transferred to the lower cost B **share class**.

CONCLUSIONS

The fund was given an overall amber rating as it is responding positively to changes already implemented. The fund has seen a turnaround in performance since last October and we are heartened by these results. However, it is too short a time frame to judge in the context of this review. At the same time though, we don't believe the fund warranted an overall red rating as remedial action has already been taken with positive results for investors.

Going forward we, along with Insight Investment, intend to further explore the fund's stated objective as it is a high hurdle and one that is not in demand in today's corporate bond sector. This will be part of a project already underway, exploring the possibility of restructuring the fund's mandate.

In addition, the board requires review and action to be taken to reduce the total costs on the product paid by investors by February 2021.

OBJECTIVE

To generate a return through a combination of income and capital returns. The Fund targets the outperformance of the Markit iBoxx GBP Collateralized & Corporate Index by 1.5% per annum before fees on a **rolling** annualised three year basis (meaning a period of three years, no matter which day you start on). However, performance is not guaranteed and a capital loss may occur.

DESCRIPTION OF INVESTOR BASE

There is a mixture of individuals, intermediaries and **institutional investors**.

ASSETS UNDER MANAGEMENT (AUM)

£27.3m
(as of 30 June 2020)

OVERALL RATING

Has provided some value but merits futher action or monitoring to meet our value criteria.

Performance ending 30 June 2020

	1 YEAR	3 YEARS	5 YEARS
ANNUALISED FUND RETURN	7.42%	4.29%	5.76%
ANNUALISED BENCHMARK RETURN	6.66%	4.50%	5.84%
DIFFERENCE	0.76%	-0.21%	-0.08%

Source for all performance: Lipper as at 30 June 2020. Fund Performance for the Institutional Shares W (Income) calculated as total return, including reinvested income net of UK tax, net of charges, based on net asset value. All figures are in GBP terms. The impact of an initial charge (currently not applied) can be material on the performance of your investment. Further information is available upon request.

The Fund will measure its performance before fees against the Markit iBoxx GBP Collateralized & Corporate Index +1.5% per annum (the "Benchmark") on a rolling annualised three year basis. The Fund will use the Benchmark as a target for the Fund's performance to match or exceed because the index represents the investment grade fixed income market for sterling-denominated bonds and outperformance of the index by 1.5% is commensurate with the Investment Manager's approach.

The Fund is actively managed, which means the Investment Manager has discretion to invest outside the Benchmark, subject to the investment objective and policy as disclosed in the Prospectus.

BNY Mellon Emerging Income Fund

OUR ANALYSIS

The fund generated income but did not meet its capital growth objective. While the fund was only given an amber rating in performance, the board believed it merited an overall amber rating for long standing underperformance and the impact of higher costs resulting from its smaller size.

In mid-2020, the BNY Mellon Emerging Income Fund was the subject of a proposed merger with another Newton-managed fund, which had a pure growth objective. We believed the merger would create greater economies of scale and help reduce the costs within the fund and consequently, boost capital returns. The merger failed to get the necessary shareholder approval at the June 2020 vote.

WHAT HAPPENED?

The fund lagged in capital growth terms in the most part due to the relative strength of low or zero-yielding companies it can't hold due to the fund's **yield** criteria. These are predominantly technology companies, the growth of which supported the performance of many Asian emerging markets.

Underperformance was also a result of not having enough invested in China. Avoidance of the region was largely due to the number of Chinese companies still owned by the government. The portfolio's managers see this as a negative due to what they cite as governance reasons associated with state ownership.

Another reason for the underperformance in the fund is the difficulty brought about by fluctuations in the varying currencies. This issue was magnified by the fact the fund's universe of **dividend** paying companies is skewed towards countries such as Brazil and South Africa. Both countries have large deficits and consequently their currencies have seen sustained falls during the review period.

CONCLUSIONS

The fund is small in size, which we attempted to address earlier this year with a proposal to merge it with the BNY Mellon Asian Income Fund. A majority of shareholders voted against the merger, wanting to maintain investment in the broader emerging market income-producing fund.

The board is now examining potential alternatives to better support its income-seeking investor base. As part of this, discussions on performance improvement with the managers are also underway and due to be completed with recommended actions by February 2021.

OBJECTIVE

To achieve income together with capital growth over the long term (5 years or more).

DESCRIPTION OF INVESTOR BASE

The majority of investors are intermediaries with some individuals and **institutional investors**.

ASSETS UNDER MANAGEMENT (AUM)

£76.2m

(as of 30 June 2020)

OVERALL RATING

Has provided some value but merits futher action or monitoring to meet our value criteria.

Performance ending 30 June 2020

	1 YEAR	3 YEARS	5 YEARS
ANNUALISED FUND RETURN	-9.53%	-2.61%	3.95%
ANNUALISED BENCHMARK RETURN	-0.49%	3.61%	7.93%
DIFFERENCE	-9.04%	-6.22%	-3.98%

Source for all performance: Lipper as at 30 June 2020. Fund Performance for the Institutional Shares W (Income) calculated as total return, including reinvested income net of UK tax, net of charges, based on net asset value. All figures are in GBP terms. The impact of an initial charge (currently not applied) can be material on the performance of your investment. Further information is available upon request.

The Fund will measure its performance against the MSCI Emerging Markets Net Return Index as a comparator benchmark (the "Benchmark"). The Fund will use the Benchmark as an appropriate comparator because the Investment Manager utilises it when measuring the Fund's income yield.

The Fund is actively managed, which means the Investment Manager has discretion over the selection of investments subject to the investment objective and policies disclosed in the Prospectus. While the Fund's holdings may include constituents of the Benchmark, the selection of investments and their weightings in the portfolio are not influenced by the Benchmark. The investment strategy does not restrict the extent to which the Investment Manager may deviate from the Benchmark.

BNY Mellon Equity Income Fund

OUR ANALYSIS

Having only partially met its objectives, generating income but not capital growth, the fund received an amber rating for performance. However, the persistence of underperformance on a **total return** basis was such that the board felt it deserving of an overall amber rating and remedial action.

The Insight-managed BNY Mellon Equity Income Fund has targeted a **dividend yield** in excess to that of the **FTSE All-Share index** annually (as at the fund's financial year-end). However, while the **yield** has been commendable, it has not been sufficient to supplement the lower than average capital growth.

WHAT HAPPENED?

The fund's managers believe investors expect a premium **yield** from an equity income fund. As such they favoured the fund's income objective over the capital goal, seeking out **high-yielding** companies rather than those that might provide greater growth. The lack of capital growth in the fund can be attributed to the downturn in the market in the first quarter of 2020 – the tail end of the review period.

The managers of the Equity Income Fund choose the companies in which it invests from those in the **FTSE All-Share index**. And over the same time period as examined by the board, the index also failed to generate capital growth due to the March market falls.

Performance versus peers has been weak, given the lack of capital growth. However, the fund invests in large companies with what they believe to have sustainable **yields**. Going into the first quarter of 2020 it also had investments in travel and leisure companies. Larger UK companies underperformed mid and small-sized groups over the past year while undeniably travel/leisure was particularly badly affected by the Covid-19 restrictions.

CONCLUSIONS

Although underperformance in the fund has been prolonged, the income target has been met and compared to many of its peer group, even exceeded. Over the 12 months to 30 June 2020, a £1,000 investment in the BNY Mellon Equity Income Fund would have resulted in £47.84 of income, net of fees. By comparison the average fund in its peer group would have generated £45.14 of income.

The board will review the fund's objective to see if clarifying language should be used to better reflect the managers' stance on favouring income over capital. This review will be completed by February 2021.

OBJECTIVE

To provide income together with long term capital growth (5 years or more). The Fund targets a **dividend yield** in excess of the **yield** of the FTSE All-Share Index on an annual basis as at the Fund's financial year end. There is no guarantee that the Fund will achieve its objective over this, or any other, period.

DESCRIPTION OF INVESTOR BASE

There is a mixture of individuals, intermediaries and **institutional investors**.

ASSETS UNDER MANAGEMENT (AUM)

£134.7m

(as of 30 June 2020)

OVERALL RATING

Has provided some value but merits futher action or monitoring to meet our value criteria.

Performance ending 30 June 2020

1 YEAR	3 YEARS	5 YEARS
-18.79%	-5.14%	0.31%
ANNUALISED FUND RETURN		
-12.99%	-1.56%	2.86%
ANNUALISED BENCHMARK RETURN		
-5.80%	-3.58%	-2.55%
DIFFERENCE		

Source for all performance: Lipper as at 30 June 2020. Fund Performance for the Institutional Shares W (Income) calculated as total return, including reinvested income net of UK tax, net of charges, based on net asset value. All figures are in GBP terms. The impact of an initial charge (currently not applied) can be material on the performance of your investment. Further information is available upon request.

The Fund will measure its performance against the FTSE All-Share Total Return Index as a comparator benchmark (the "Benchmark"). The Fund will use the Benchmark as an appropriate comparator because it is representative of the UK equity market.

The Fund is actively managed, which means the Investment Manager has discretion over the selection of investments subject to the investment objective and policies disclosed in the Prospectus. While the Fund's holdings may include constituents of the Benchmark, the selection of investments and their weightings in the portfolio are not influenced by the Benchmark. The investment strategy does not restrict the extent to which the Investment Manager may deviate from the Benchmark.

BNY Mellon Global Absolute Return Fund

OUR ANALYSIS

The fund achieved a positive return over some time periods examined but was affected by the market falls at the end of the review period. On costs the fund also received an amber rating. Our overall assessment, therefore, was amber – the fund requires further action to meet our value criteria.

The BNY Mellon Global Absolute Return Fund, managed by Insight Investment, generally achieves a return above cash on a **rolling** one year basis. Consequently, it also achieves positive returns on an annual basis. However, the fund has failed to meet its other objective, which is cash plus 4% on a **rolling**, annualised five year basis. (The cash target is based on three month **LIBOR**).

The fund was given an amber for performance as it has met two of its three objectives, thereby showing some value as opposed to none, which would have garnered a red rating.

The board noted the longer-term performance has been affected by the fund's higher than average costs. This is in comparison to other funds with similar objectives and structure. The costs are due, in part, to the price paid by the fund for holdings in other collective investment vehicles such as **exchange-traded funds**.

The board did note the excess costs were relatively highest for **retail investors**, while less excessive for other **share classes**. As **retail investors** make up a smaller portion of the total investor base of the fund, this resulted in an amber rating for costs.

WHAT HAPPENED?

The market falls in the first quarter of 2020 – which occurred at unprecedented speed – had a significantly negative impact on the long-term performance record of the fund. Heading into the volatile spring, the fund's position in what are known as "risk assets" (such as **equities** and **high yield bonds**) had been reduced. But it still had exposure to these assets as well as to infrastructure investments, which fell alongside the wider market.

Although losses occurred in the fund in March were around half that of the market, this still equated into a double digit fall, which we consider significant for an **absolute return** fund. Spring's **volatility** was not the only reason the fund missed its five-year objective. The fund also posted a negative return in 2018.

CONCLUSIONS

We transferred 210 retail holdings in the legacy retail **share classes** in July, worth a combined £1.5m, to our more contemporary retail B **share classes**. Therefore many **retail investors** will already be benefiting from lower costs. However, we are not satisfied with the total costs paid by investors and are examining all components contributing to the **Ongoing Charge Figure** (OCF) to identify and implement additional cost savings. We expect this will be completed by February 2021.

With regards to poor performance on the fund, we acknowledge the market falls resulting from the pandemic were difficult to navigate and this had a short-term impact. We will monitor it going forward to see the strength and timing of its recovery.

OBJECTIVE

To deliver positive returns on an annual basis. The Fund aims to deliver cash 3 month GBP LIBOR before fees on an annual basis and cash 3 month GBP LIBOR +4% p.a. before fees on a **rolling** annualised five year basis (meaning a period of five years, no matter which day you start on). However, a positive return is not guaranteed and a capital loss may occur.

DESCRIPTION OF INVESTOR BASE

The largest proportion of holders of this fund are **institutional investors**, with 90% in this group.

ASSETS UNDER MANAGEMENT (AUM)

£394.3m

(as of 30 June 2020)

OVERALL RATING

Has provided some value but merits futher action or monitoring to meet our value criteria.

Performance ending 30 June 2020

	1 YEAR	3 YEARS	5 YEARS
ANNUALISED FUND RETURN	-5.55%	0.04%	0.80%
ANNUALISED BENCHMARK RETURN	0.66%	0.66%	0.59%
DIFFERENCE	-6.21%	-0.62%	0.21%

Source for all performance: Lipper as at 30 June 2020. Fund Performance for the Institutional Shares W (Accumulation) calculated as total return, including reinvested income net of UK tax, net of charges, based on net asset value. All figures are in GBP terms. The impact of an initial charge (currently not applied) can be material on the performance of your investment. Further information is available upon request.

The Fund will measure its performance before fees against 3 month GBP LIBOR on an annual basis (the "12 month Benchmark") and 3 month GBP LIBOR +4% per annum on a rolling annualised five year basis (the "5 year Benchmark") as target benchmarks.

LIBOR is the average interbank interest rate at which a large number of banks on the London money market are prepared to lend one another unsecured funds denominated in British pounds sterling. The Fund will use the 12 month Benchmark as a target for the Fund's performance to match or exceed over a rolling 12 month period as it is representative of cash; and the 5 year Benchmark as a target for its performance to match or exceed over a rolling annualised 5 year basis as it is consistent with the risk taken in the Fund.

The Fund is actively managed, which means the Investment Manager has discretion over the selection of investments, subject to the investment objective and policies as disclosed in the Prospectus.

BNY Mellon Global Multi-Strategy Fund

OUR ANALYSIS

The BNY Mellon Global Multi-Strategy Fund received an overall amber rating, driven by the red rating for costs on the retail shares. Rated green across all other assessment categories, including green for costs for institutional and **platform** investors, the fund managed by Insight Investment, suffers from high costs of its retail **share class**. **Retail investors** make up a significant portion of the investor base and as such the board determined the overall score of amber.

Although 360 holdings worth £5.4m were migrated to the lower-costing B **share class**, this **share class** still has a higher **on-going charges figure** (OCF) when compared to its peer group. The costs are due, in part, to the price paid by the fund for holdings in other collective investment vehicles such as **exchange-traded funds**. The relatively small size of the fund has also played a part.

CONCLUSIONS

The red rating for cost, on the retail **share class**, prompted the board to award an overall amber score. We require action to be taken to reduce the total costs on the product paid by investors.

We are now reviewing the cost structure of the fund with the main purpose to reduce the costs for all shareholders but in particular for retail shareholders. This review will be completed by February 2021 with recommendations to the board.

OBJECTIVE
To achieve capital growth.

DESCRIPTION OF INVESTOR BASE

There is a mixture of intermediary and individual investors.

ASSETS UNDER MANAGEMENT (AUM)

£86.6m
(as of 30 June 2020)

OVERALL RATING

Has provided some value but merits futher action or monitoring to meet our value criteria.

Performance ending 30 June 2020

	1 YEAR	3 YEARS	5 YEARS
ANNUALISED FUND RETURN	-7.16%	-0.01%	2.26%
ANNUALISED BENCHMARK RETURN	-0.96%	1.51%	3.65%
DIFFERENCE	-6.20%	-1.52%	-1.39%

Source for all performance: Lipper as at 30 June 2020. Fund Performance for the Institutional Shares W (Accumulation) calculated as total return, including reinvested income net of UK tax, net of charges, based on net asset value. All figures are in GBP terms. The impact of an initial charge (currently not applied) can be material on the performance of your investment. Further information is available upon request.

The Fund will measure its performance against the UK Investment Association Mixed Investment 20-60% Shares Net Return Sector average as a comparator benchmark (the "Benchmark"). The Fund will use the Benchmark as an appropriate comparator because it includes a broad representation of funds with levels of equity and bond exposure similar to those of the Fund.

The Fund is actively managed, which means the Investment Manager has discretion over the selection of investments, subject to the investment objective and policies as disclosed in the Prospectus.

BNY Mellon Inflation-Linked Corporate Bond Fund

OUR ANALYSIS

Although the BNY Mellon Inflation-Linked Corporate Bond Fund, managed by Insight Investment, has met its performance objective, the cost has been high for **retail investors**. Given the costs – and the gap between the retail and institutional shares – the board felt an overall amber score was justified, with a red rating for costs specifically on retail shares.

In examining the various cost criteria, the board noted the retail shares for the fund were disproportionately high when compared to its peer group. Institutional and **platform** shares in the fund were more in line with peers but the investor base of the fund is considered to be more retail. Therefore, the board awarded an overall amber rating for the fund.

As inflation rises, typically so too do interest rates, which in turn lead to lower **yields** from investments like **bonds**. Yet traditionally, only a few companies issue bonds linked to inflation. As such, instruments like **derivatives** are used in the management of the BNY Mellon Inflation-Linked Corporate Bond Fund to effectively convert traditional corporate bonds into those less sensitive to moves in inflation. This comes at a cost.

As part of the migration of **retail investors** to the lower cost B **share class**, 417 holdings worth £3.7m was transferred.

CONCLUSIONS

Through the review, the board found total fees incurred by investors to be too high, although explainable by the smaller fund size and use of derivatives in the investment approach. The board requires a review and action on the fund's expenses. This review will be completed by February 2021.

OBJECTIVE

To generate income and capital growth over the long term (5 years or more).

DESCRIPTION OF INVESTOR BASE

The majority of investors are intermediaries with some individuals and **institutional investors**.

ASSETS UNDER MANAGEMENT (AUM)

£64.5m

(as of 30 June 2020)

OVERALL RATING

Has provided some value but merits futher action or monitoring to meet our value criteria.

Performance ending 30 June 2020

1 YEAR	3 YEARS	5 YEARS
1.23%	1.80%	3.40%
ANNUALISED FUND RETURN		
3.34%	2.91%	3.61%
ANNUALISED BENCHMARK RETURN		
-2.11%	-1.10%	-0.20%
DIFFERENCE		

Source for all performance: Lipper as at 30 June 2020. Fund Performance for the Institutional Shares W (Accumulation) calculated as total return, including reinvested income net of UK tax, net of charges, based on net asset value. All figures are in GBP terms. The impact of an initial charge (currently not applied) can be material on the performance of your investment. Further information is available upon request.

The Fund will measure its performance against the UK Investment Association Sterling Strategic Bond Net Return Sector average as a comparator benchmark (the "Benchmark"). The Fund will use the Benchmark as an appropriate comparator as, although not representative of inflation-linked corporate bond funds specifically, it represents a broad range of sterling-denominated bond funds that invest in corporate bonds, government bonds and derivatives.

The Fund is actively managed, which means the Investment Manager has discretion over the selection of investments, subject to the investment objective and policies disclosed in the Prospectus.

BNY Mellon Real Return Fund

OUR ANALYSIS

The Newton-managed BNY Mellon Real Return Fund received two amber ratings in the sub-categories analysed – performance and cost (retail). In the former, the fund failed to meet one of its objectives while in the latter it received an amber rating for the retail **share class**. Our overall assessment, therefore, was amber. The fund requires further action to meet our value criteria.

The fund has achieved positive returns over a **rolling** three-year basis. However, mainly due to the March market falls, the fund failed to meet its rolling five year cash (**LIBOR**) +4% target over the review period ending 30 June 2020.

With respect to costs, many investors access the fund via the **platform**, W **share class**, which was rated green for its relative value. In addition, 292 holdings, with a combined value of £6.2m were moved from our legacy retail shares to the lower costing B shares by July 2020. However, we still believe the costs on the shares is high relative to similar funds.

WHAT HAPPENED?

BNY Mellon Real Return Fund's approach aims to protect investors' capital over the long-term while achieving its objective, and because of the defensive holdings in the fund, it lagged as markets rose over the observation period. This positioning was a result of the investment team's belief that market rises (leading up to 2020) were largely artificial as they felt it had more to do with the low interest rate environment than because companies and economies were fundamentally strong.

Entering 2020 the fund had some 40% in what the team calls the "stabilising layer" of the portfolio. These assets, such as gold are meant to diversify and offset riskier assets, such as equities, providing ballast if markets were to fall.

However, the speed and strength of the Covid-related falls in global markets and across **asset classes** in the Spring caused different asset classes to behave similarly, all experiencing sharp declines in value. Even assets such as gold, known to traditionally perform well in distressed market conditions, fell in value.

CONCLUSIONS

The board notes over three and five years the fund is top quartile, net-of-fees, in its **Investment Association Targeted Absolute Return sector** peer group over the period ending 30 June 2020. And while we are pleased to see the recent performance in the BNY Mellon Real Return Fund, it doesn't negate the fact it has not consistently met its cash +4% objective.

As such the board will further evaluate the fund's objective and monitor ongoing performance to see if a longer-term change is needed. In addition, the board requires a review of the retail **share class** fees and aims to reduce these in an effort to boost value to investors in those **share classes**. This will be completed by February 2021, with recommendations to the board.

OBJECTIVE

To achieve a rate of return in sterling terms that is equal to or above a minimum return from cash (1 month GBP LIBOR) + 4% per annum over five years before fees. In doing so, it aims to achieve a positive return on a **rolling** three year basis (meaning a period of three years, no matter which day you start on). However, capital is in fact at risk and there is no guarantee that this will be achieved over that, or any time period.

DESCRIPTION OF INVESTOR BASE

There is a mixture of individuals, intermediaries and **institutional investors**.

ASSETS UNDER MANAGEMENT (AUM)

£5,537.4m

(as of 30 June 2020)

OVERALL RATING

Has provided some value but merits futher action or monitoring to meet our value criteria.

Performance ending 30 June 2020

	1 YEAR	3 YEARS	5 YEARS
ANNUALISED FUND RETURN	1.04%	2.90%	3.13%
ANNUALISED BENCHMARK RETURN	0.54%	0.56%	0.49%
DIFFERENCE	0.50%	2.34%	2.64%

Source for all performance: Lipper as at 30 June 2020. Fund Performance for the Institutional Shares W (Accumulation) calculated as total return, including reinvested income net of UK tax, net of charges, based on net asset value. All figures are in GBP terms. The impact of an initial charge (currently not applied) can be material on the performance of your investment. Further information is available upon request.

The Fund will measure its performance before fees against 1 month GBP LIBOR +4% per annum over five years as a target benchmark (the "Benchmark").

LIBOR is the average interbank interest rate at which a large number of banks on the London money market are prepared to lend one another unsecured funds denominated in British pounds sterling. The Fund will use the Benchmark as a target for the Fund's performance to match or exceed because, in typical market conditions, it represents a target that will be equal to or greater than UK inflation rates over the same period and is commensurate with the Investment Manager's approach.

The Fund is actively managed, which means the Investment Manager has discretion over the selection of investments, subject to the investment objective and policies as disclosed in the Prospectus.

All other funds

Green-rated funds

Funds in this chapter received an overall rating of green as it is the board's assessment they delivered value over the assessment period. As such, there is no accompanying commentary. Instead we have run a list of the funds highlighting their net-of-fees performance over varying time periods, all ending 30 June 2020.

In this section we do include an account of one fund which received amber ratings in two of the underlying sub-sectors.

The **BNY Mellon Global Dynamic Bond Fund** received two amber ratings in the sub-categories – performance and cost (the latter for retail shares only). Yet following examination, the board decided it merited an overall green rating.

The performance rating was in relation to its cash (based on **LIBOR**) +2% being met inconsistently through the review period. While we will continue to monitor this fund and its on-going performance, we note its underperformance was clearly due to the March period.

The fund was ahead of its performance aim as at 31 January, fell behind in the downturn and hadn't recovered by the end of the review period, 30 June (but did recover shortly thereafter).

The other amber score related to the fund's retail share costs when compared to other funds. However, the board believes this is hard to accurately evaluate fairly given the nature of the fund. The BNY Mellon Global Dynamic Bond Fund invests in global bonds and targets an **absolute return**. As such, compared to other **absolute return** funds in its peer group, its costs offer better value than average. Yet compared to a peer group of strictly **absolute return** bond funds, the retail **share class** in some cases was higher.

The board decided on an amber rating for cost on retail shares (noting institutional and **platform** shares were rated green on cost) and is looking to conclude a cost review of the retail **share classes** by February 2021.

PERFORMANCE ENDING 30 JUNE 2020

	Fund	Share class name	Benchmark	Annualised Fund Return (%)			Annualised Benchmark Return (%)		
				1 year	3 year	5 years	1 year	3 year	5 years
Absolute Return Funds	BNY Mellon Global Dynamic Bond Fund	Institutional Shares W (Accumulation)	LIBOR GBP 1 Month	1.00	1.56	1.83	0.54	0.56	0.49
	BNY Mellon Multi Asset Diversified Return Fund	Institutional Shares W (Income)	LIBOR GBP 1 Month	1.97	2.34	4.68	0.54	0.56	0.49
Bond Funds	BNY Mellon Global Dynamic Bond Income Fund	Institutional Shares W (Income)	n/a	1.02	1.74	–	–	–	–
	BNY Mellon Global High Yield Bond Fund	Institutional Shares W (Accumulation)	ICE Bank of America Merrill Lynch Global High Yield ex Bank Capital & Junior Subordinated (100% Hedged into sterling) Total Return Index	0.82	2.46	4.07	-1.74	1.69	3.76
	BNY Mellon Index Linked Gilt Fund	Institutional Shares 2 (Accumulation)	FTSE Actuaries UK Index-Linked Gilts Over 5 Years Total Return Index	13.06	8.03	9.64	11.95	7.59	9.32
	BNY Mellon International Bond Fund	Institutional Shares W (Income)	JP Morgan Global GBI Unhedged Total Return Index	8.97	6.01	9.05	8.40	5.93	8.93
	BNY Mellon Long Corporate Bond Fund	Newton Institutional Shares 3 (Accumulation).	ICE ICE Bank of America Merrill Lynch Non-Gilt Over 10 Years Investment Grade Total Return Index	10.94	6.47	7.77	11.17	6.85	8.06
	BNY Mellon Long Gilt Fund	Institutional Shares 2 (Accumulation)	FTSE Actuaries UK Conventional Gilts Over 15 Years Total Return Index	18.99	9.73	10.07	19.75	10.18	10.25

Source for all performance: Lipper as at 30 June 2020. Fund Performance calculated as total return, including reinvested income net of UK tax and charges, based on net asset value. All figures are in GBP terms. The impact of an initial charge (currently not applied) can be material on the performance of your investment. Further information is available upon request.

	Fund	Share class name	Benchmark	Annualised Fund Return (%)			Annualised Benchmark Return (%)		
				1 year	3 year	5 years	1 year	3 year	5 years
Equity Funds	BNY Mellon Asian Income Fund	Institutional Shares W (Accumulation)	FTSE Asia Pacific ex Japan Total Return Index	-9.33	1.79	8.21	2.84	4.95	9.52
	BNY Mellon Continental European Fund	Institutional Shares W (Accumulation)	FTSE World Europe ex UK Total Return Index	3.92	5.09	9.40	0.55	3.61	8.76
	BNY Mellon Equity Income Booster Fund	Institutional Shares W (Income)	FTSE All-Share Total Return Index	-19.66	-7.01	-0.87	-12.99	-1.56	2.86
	BNY Mellon Global Emerging Markets Fund	Institutional Shares W (Accumulation)	MSCI Emerging Markets Net Return Index	17.05	6.35	11.62	-0.49	3.61	7.93
	BNY Mellon Oriental Fund	Institutional Shares W (Accumulation)	FTSE Asia Pacific ex Japan Total Return Index	25.13	8.05	12.10	2.84	4.95	9.52
	BNY Mellon UK Equity Fund	Institutional Shares W (Income)	FTSE All-Share Total Return Index	-10.71	0.06	3.66	-12.99	-1.56	2.86
	BNY Mellon UK Income Fund	Institutional Shares W (Income)	FTSE All-Share Total Return Index	-10.71	-0.68	3.78	-12.99	-1.56	2.86
	BNY Mellon UK Opportunities Fund	Institutional Shares W (Income)	FTSE All-Share Total Return Index	-9.90	0.16	4.10	-12.99	-1.56	2.86
	BNY Mellon US Opportunities Fund	Institutional Shares W (Accumulation)	Russell 3000 Total Return Index	16.44	9.42	11.50	9.73	11.88	15.45
Global Funds	BNY Mellon 50/50 Global Equity Fund	Institutional Shares 2 (Accumulation)	50% FTSE All-Share Total Return Index, 16.67% FTSE World North America Total Return Index, 16.67% FTSE Europe ex UK Total Return Index and 16.67% FTSE Asia Pacific Total Return Index	-2.92	3.14	6.20	-4.09	2.80	7.14
	BNY Mellon Global Equity Fund	Institutional Shares W (Accumulation)	MSCI AC World Net Return Index	7.45	8.72	11.38	5.18	7.91	11.70
	BNY Mellon Global Income Fund	Institutional Shares W (Income)	FTSE World Total Return Index	-3.95	5.17	11.76	5.82	8.51	12.46
	BNY Mellon Global Opportunities Fund	Institutional Shares W (Accumulation)	MSCI AC World Net Return Index	5.42	8.58	11.67	5.18	7.91	11.70
	BNY Mellon Long-Term Global Equity Fund	Institutional Shares W (Accumulation)	FTSE All World Total Return GBP Index	7.14	12.14	14.61	5.72	8.37	12.26
Multi Asset Funds	BNY Mellon Multi-Asset Balanced Fund	Institutional Shares W (Income)	UK Investment Association's Mixed Investment 40-85% Shares Net Return Sector average	2.28	4.84	6.71	-0.33	2.68	5.19
	BNY Mellon Multi-Asset Global Balanced Fund	Newton Institutional Shares 3 (Income)	37.5% FTSE All-Share Total Return Index, 37.5% FTSE World ex UK Total Return Index, 20% FTSE Actuaries UK Conventional Gilts All Stocks Total Return Index and 5% LIBID GBP 7 Day	2.07	5.75	8.08	0.62	4.48	6.75
	BNY Mellon Multi-Asset Growth Fund	Institutional Shares W (Income)	UK Investment Association's Flexible Investment Net Return Sector average	1.28	5.31	8.07	-0.25	2.68	5.45
	BNY Mellon Multi-Asset Income Fund	Institutional Shares W (Income)	60% MSCI AC World Index and 40% ICE Bank of America Merrill Lynch Global Broad Market GBP Hedged Index	-2.63	0.81	5.79	5.93	6.62	8.66

Source for all performance: Lipper as at 30 June 2020. Fund Performance calculated as total return, including reinvested income net of UK tax and charges, based on net asset value. All figures are in GBP terms. The impact of an initial charge (currently not applied) can be material on the performance of your investment. Further information is available upon request.

Glossary

Glossary

Absolute return: Used to describe investments which seek to achieve a positive return over an explicit timeframe. Typically funds with this performance aim use different strategies to make a return even when markets are falling, although this is never guaranteed.

Annual (Management) Charge: An ongoing fee paid to the management company for managing an investment, usually charged as a percentage of the investment.

Asset-backed bonds: A type of security backed by a pool of assets, such as loans or credit card debt, that have been securitised.

Asset classes: A broad group of securities or investments that have similar financial characteristics. For example, cash is considered an asset class.

Asset servicing: An umbrella term to describe the broad range of services involved in the safekeeping and administration of assets.

Authorised Corporate Director: The ACD acts as an independent steward protecting the interests of investors in a fund. Overseeing the investment manager to ensure the fund is run in accordance with its stated objectives and UK regulations, rules and principles, the ACD has the ultimate regulatory responsibility for a fund. They are accountable to the UK regulator, the Financial Conduct Authority.

Benchmark: A baseline for comparison.

Bond: A loan of money by an investor to a company or government for a stated period of time in exchange for a fixed interest rate payment and the repayment of the initial amount at its conclusion.

Custody: Securing and managing the securities held within a fund. External custodians are used to provide this service.

Derivatives: A financial instrument that derives its value from something else. They can be used to gain exposure to, or help protect against, expected changes in the value of the underlying investments. They can be traded on a regulated exchange or over the counter.

Dividends: A sum of money paid regularly by a company or investment fund, to its shareholders out of its profits.

Equity: Shares issued by a company, representing an ownership interest.

Exchange-traded fund (ETF): is a security that tracks a particular set of equities or index but trades like a stock on an exchange. It is considered to be a low cost index fund.

FCA: The Financial Conduct Authority is responsible for oversight of the UK asset management industry.

Index: A hypothetical portfolio of securities representing a particular market or a portion of it. For example, the S&P 500 is an index of the 500 largest publicly traded companies in the US.

Institutional investor: A company or organisation (such as pensions and insurance companies) that invests money on behalf of other people.

Investment grade bonds: A rating given by a recognised credit rating agency to indicate the company or government behind a bond has relatively less risk of defaulting compared to lower rated investments.

Ongoing Charge Figure (OCF): This is the amount in percentage points, an investor will pay for the services provided by a fund. This is made up of a manager's fees for running the portfolio, along with other costs, such as administration. It's meant to be used as a standardised method of comparing the costs of funds.

Platform: A service that allows fund investments to be bought online, often used by financial advisers buying on behalf of their clients.

Quasi-government: A quasi-government organisation is one supported by the government but is managed privately.

Rolling (returns): Annualised average returns for a period, ending with the listed year.

Retail investors: An individual, non-professional investor in funds who tends to purchase securities for their own personal accounts. They often trade in smaller amounts compared to institutional investors.

Share (or unit) class: An investment fund has different types of shares (or units in the case of a unit trust) investors can buy. Each 'class' has varying benefits and drawbacks.

Total returns: It is the total amount - capital gains and any income distributed - made, or lost, from an investment.

Volatility: Large and/or frequent moves up or down in the price or value of an investment or market.

Yield: The income return from an investment, be it interest from a bond or a dividend from an equity.

SERVICE PROVIDERS:

Administrator: independently verifies the assets and valuation of the fund.

Auditor: authorised to review and verify the accuracy of financial records and ensure that companies comply with tax laws.

Custodian: holds customers' securities for safekeeping to minimise the risk of their theft or loss.

Depositary: is an entity that acts in a safekeeping and a fiduciary capacity for a fund, providing global custody services. A depositary acts as a custodian.

Fund accountant: Responsible for the day-to-day accounting for one or more assigned funds. It is their responsibility to prepare timely and accurate Net Assets Values (NAV), yields, distributions, and other fund accounting output for review.

Transfer agent: Also known as the registrar, they are the trusts or institutions that register and maintain detailed records of the transactions of investors.

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Our phone lines are open Monday to Friday 8.30am until 5.30pm, UK time.
Telephone calls may be recorded for monitoring and training purposes.