CIR Bonds Plus Fund – Q4 2020

January 2021

Insight INVESTMENT

BNY MELLON | INVESTMENT MANAGEMENT

Bonds Plus Fund
Portfolio summary as at 31 December 2020

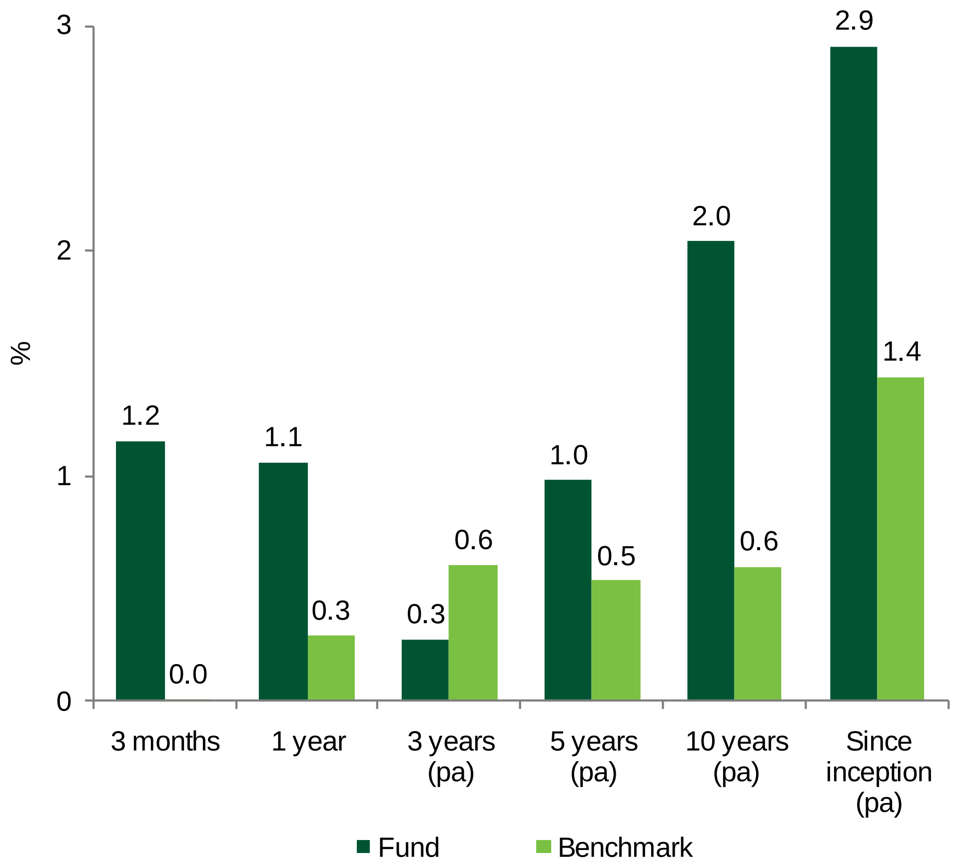
Fund objective

- The Fund aims to deliver positive absolute returns on an annual basis

Fund summary

- A diversified fixed income absolute return fund
- Utilises broad fixed income opportunity set, e.g. government, inflation linked, corporate, emerging market debt, high yield, loans, asset backed securities and currency
- Launched in 2006, asset size £1,799m
- Target is to outperform benchmark by 2% pa (before tax, fees and expenses) over rolling three-year periods

Fund performance



Please refer to the risk disclosures at the back of this document. The Bonds Plus Fund is gross of fees and in GBP. All returns over one year are annualised. Benchmark: SONIA (previously benchmarked against 3-Month GBP LIBOR until 1 January 2021). Inception: 31 August 2006.

Economic and market themes

Q4 2020

- COVID19 dynamics worsened during Q4, especially in Europe where a second wave of infections forced governments to reimpose more severe restrictions. These restrictions are set to hinder growth, especially the service sector with forward looking indicators such as the Purchasing Managers index falling back into contractionary territory. Manufacturing indicators remain in expansion territory, reflecting efforts to keep some parts of the economy open. There were notable regional divergences with the post COVID-19 economic recovery more advanced in China/Asia, reflecting better virus suppression and economies more biased towards manufacturing versus services.

- Given the fragile growth backdrop and continued uncertainty regarding the recovery, both monetary and fiscal policies were extended. Sentiment was also boosted by the conclusion of the US Presidential election and late in the year a much anticipated additional fiscal support package was agreed in the US. As many predicted, negotiations on a new trade agreement between the UK and EU went down to the wire but were finally agreed which provided another leg of support for risk assets.

- Despite strong performance from assets such as equities and the riskier-end of debt markets, government bond yields remained fairly stable reflecting the impact of central bank policy. The major trend within currency markets was continuing US dollar weakness, reflecting improving global growth expectations.

- Credit spreads continued to tighten throughout the quarter, however at a slower rate. Valuations have retraced significantly from the low levels in March, buoyed by considerable policy response, and many credit markets ended the year tighter than pre-pandemic levels. This environment also helped asset-backed markets continue to perform well.

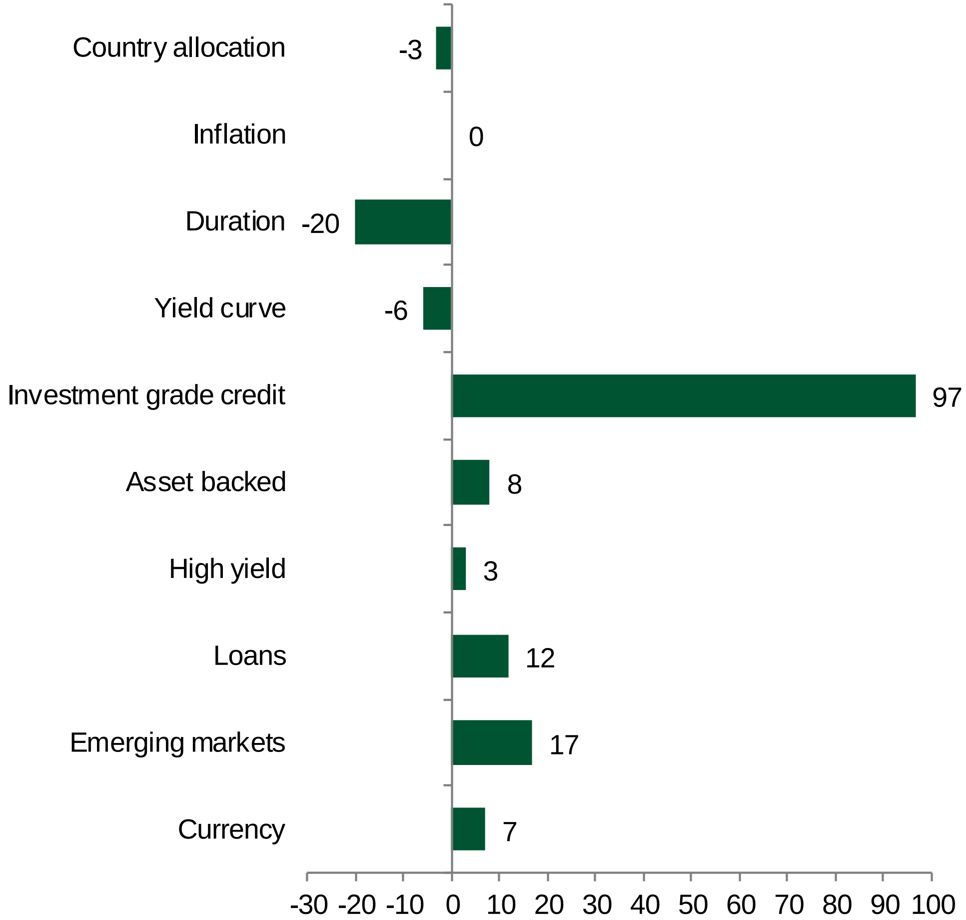
- Risk assets prices now embed expectations of improving growth from mid-2021 reflecting a belief that vaccination programs will allow a significant pick-up in activity. In that sense they are vulnerable to adverse developments in terms of virus mutation/vaccine escape or disappointment on vaccine deployment. The potential for positive surprise could come from the unleashing of forced savings, pent-up demand and corporate earnings showing better-than-expected leverage into a recovery as a function of cost-cutting.

Bonds Plus Fund
Performance attribution

Q4 2020

- The fund outperformed over the quarter.
- Country allocation was a small negative for performance. A long US versus short Germany position suffered early in the quarter, this partially recovered later in the quarter. Holding a long in Italy versus short Germany and a long US versus short France position was positive for performance.
- Duration was negative as a long position in US duration suffered as yields rose.
- Yield curve positioning was a small negative, driven by flattener positions in Italy and Germany as yields in Europe steepened.
- A long in IG corporate credit was the largest driver of the outperformance, followed by security selection in financials. Positioning in short CDS versus long cash bonds also added value.
- The benefit from longs in ABS were largely offset by a marking down of one of our positions which we expect to recover and has started to do so.
- CDS shorts versus cash corporate bonds concentrated in High Yield were neutral for performance. This was switched into an IG short towards the end of the quarter.
- Loans benefitted as spreads rallied.
- Exposure to emerging market duration (primarily Indonesia, Mexico, Colombia and Russia) and currency was positive.
- Currency exposure was positive for performance. This was driven by a long in Asian currencies versus USD.

Contribution by investment decision (bp)



Please refer to the risk disclosures at the back of this document. As at 31 December 2020. Attribution shown gross of fees.

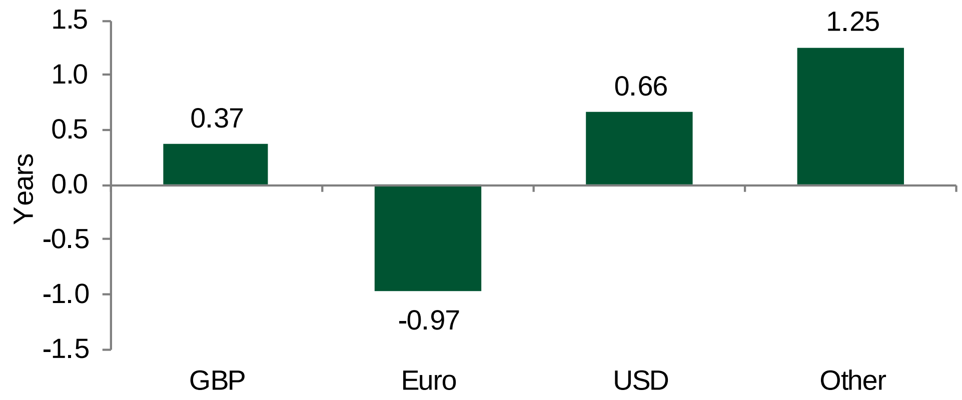
Bonds Plus Fund

Portfolio summary as at 31 December 2020

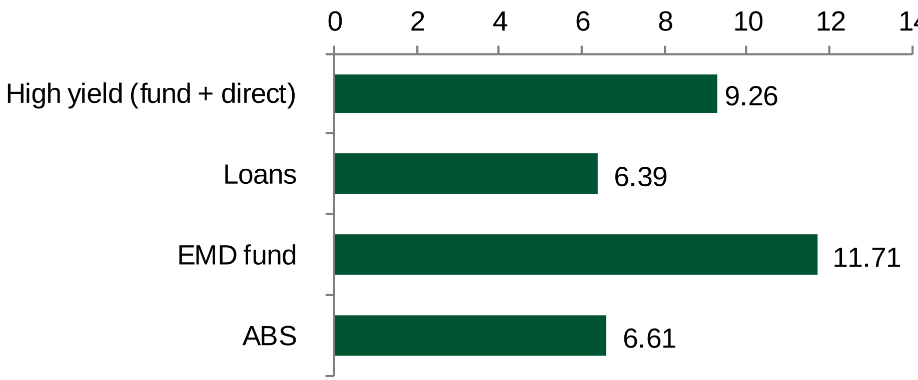
Key statistics

Yield (%)[1]	2.05
Spread over swaps (bp)	137
Overall duration (years)	1.32
Inflation-linked duration (years)	0.00
Investment grade (years)	-0.82
High yield (years)	0.80

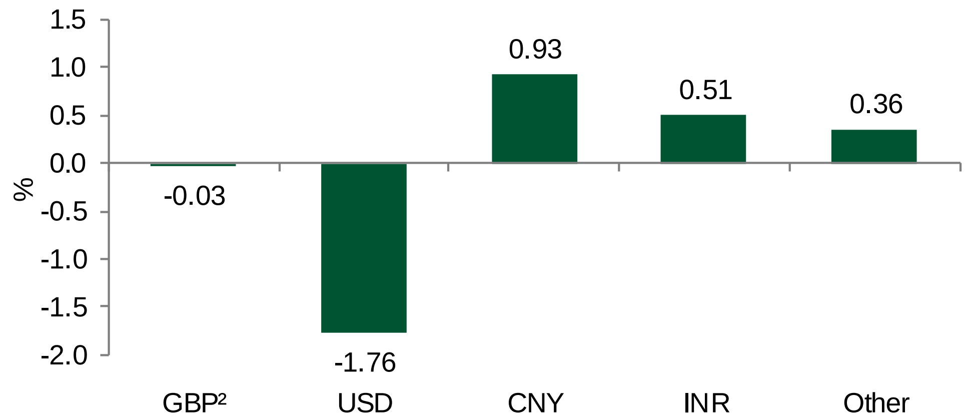
Duration exposure by currency (years)



Allocation to other fixed income markets (%)



Top 5 relative currency exposures (%)

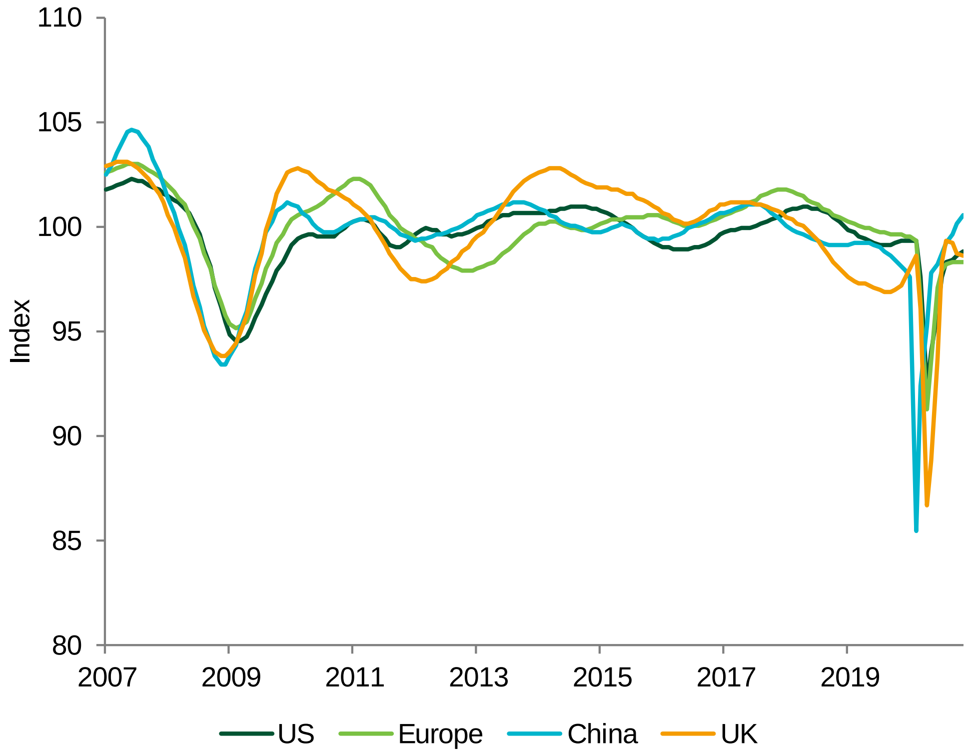


Please refer to the risk disclosures at the back of this document. [1] The yield on the Fund includes the real yield of index-linked assets and therefore is likely to understate the conventional yield equivalent of the Fund. [2] Sterling exposure is shown relative to the base currency of the Fund.

Macroeconomic themes

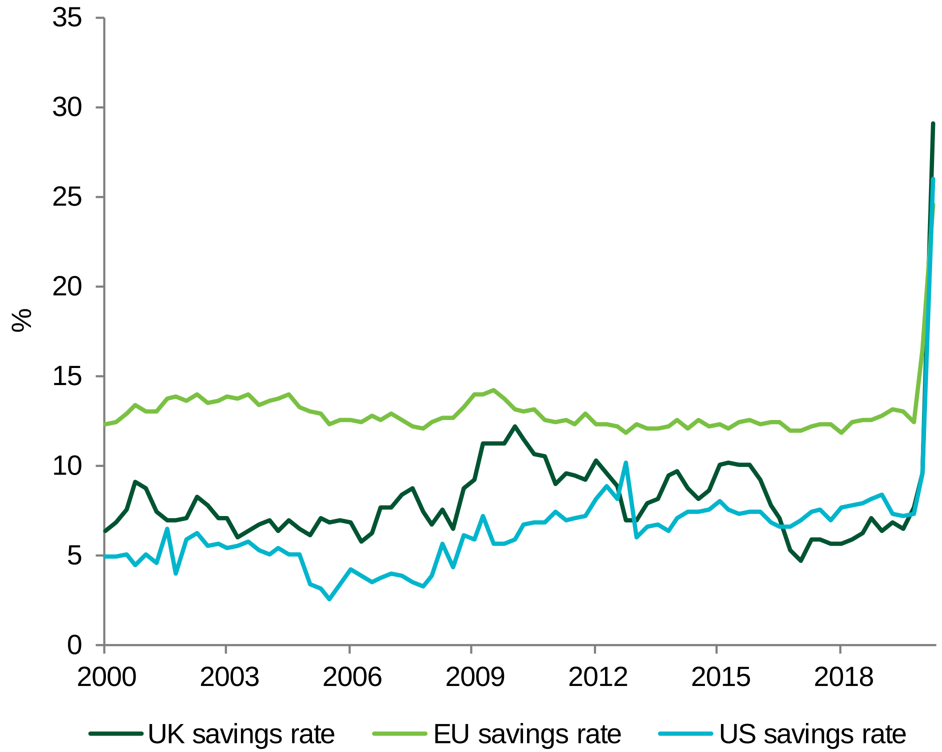
Growth recovery continues

OECD leading indicators of economic activity



Growth expected to continue to improve in 2021

Savings rates as % of disposable income



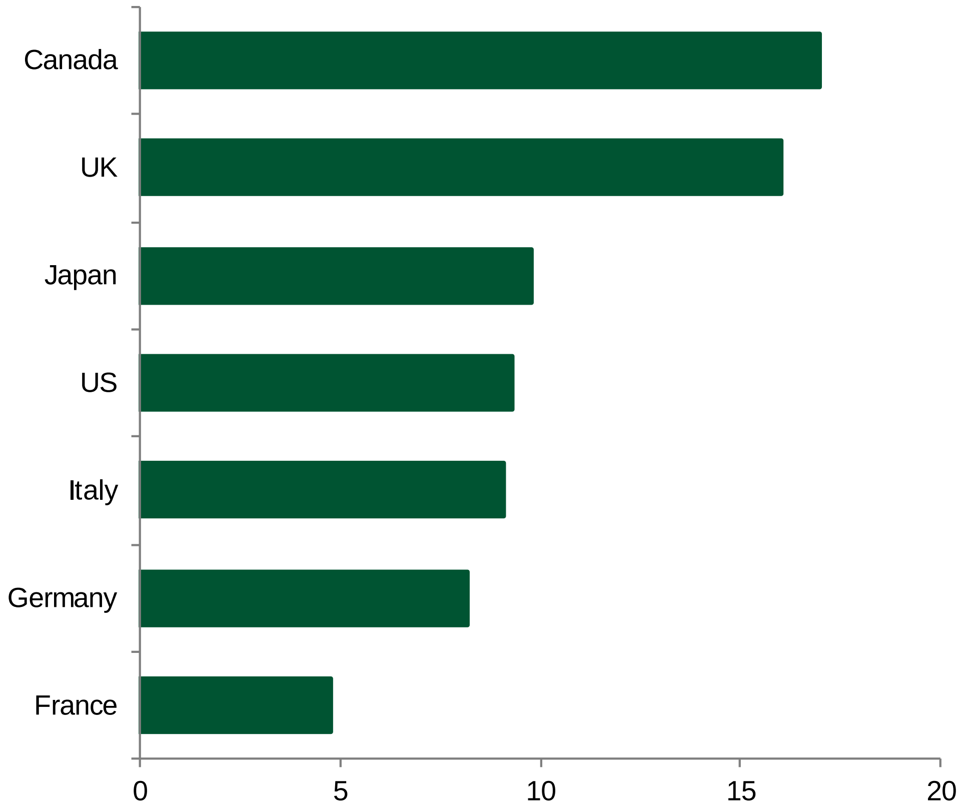
High levels of savings and pent-up demand will boost growth rates

Source: Bloomberg as at December 2020. There is no guarantee that any forecasts made will come to pass. Any projections or forecasts contained herein are based upon certain assumptions considered reasonable.

Macroeconomic themes

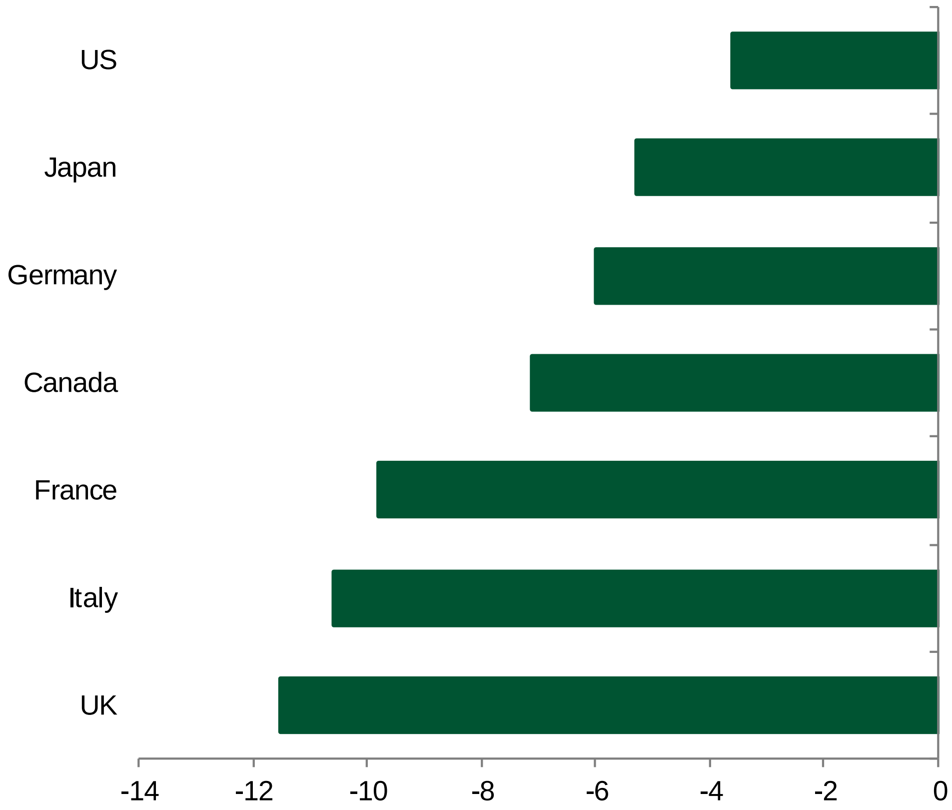
Higher government spending doesn't necessarily translate to growth

Increase in primary deficit (% of GDP)



Budget deficits rise as spending rockets

% change in GDP in 2020 (f)



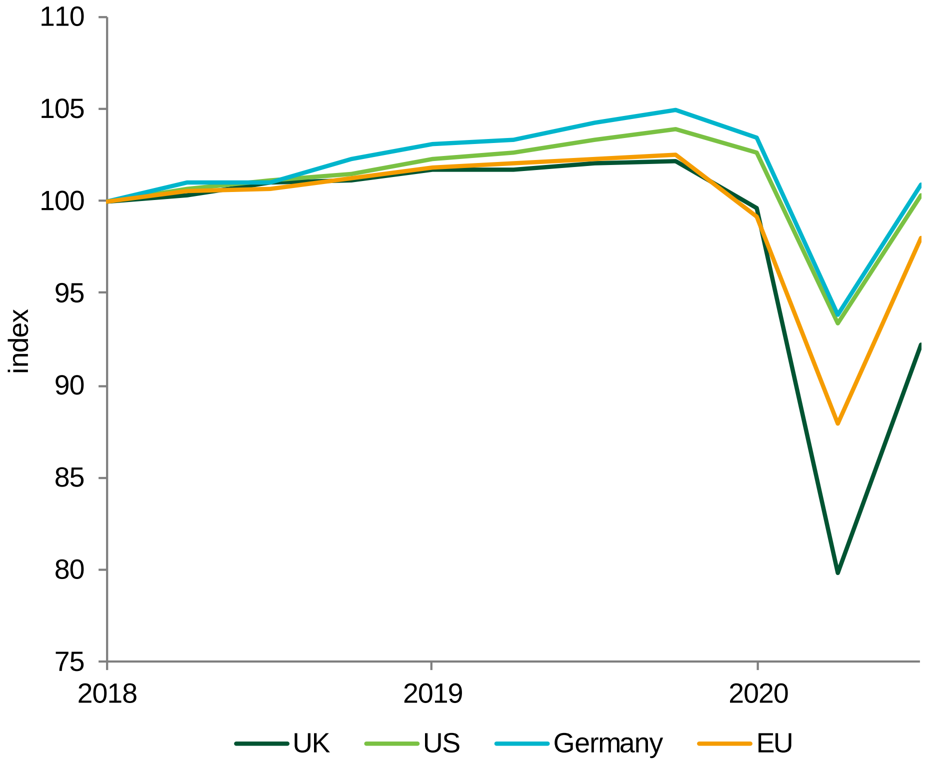
Growth outcomes varied

Source: IMF, OBR and Insight as at December 2020.

Macroeconomic themes: UK

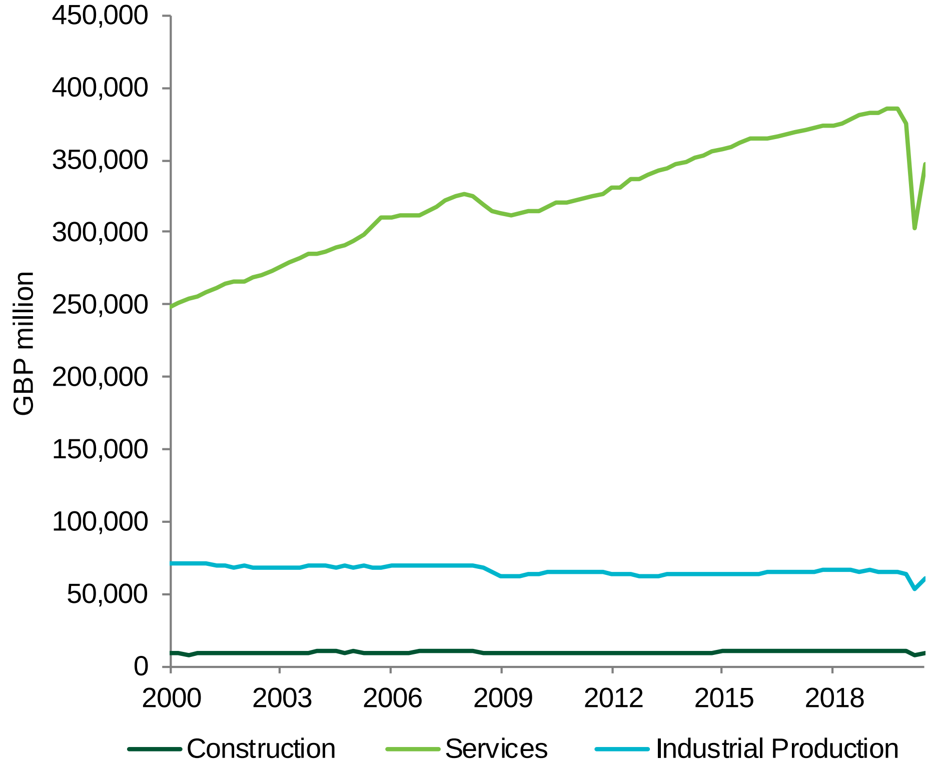
UK growth lags as services sector hit

Economic growth in the UK, Europe, and the US (rebased to 100)



UK growth hardest hit by Covid

UK services sector importance was the key to weaker relative economic performance

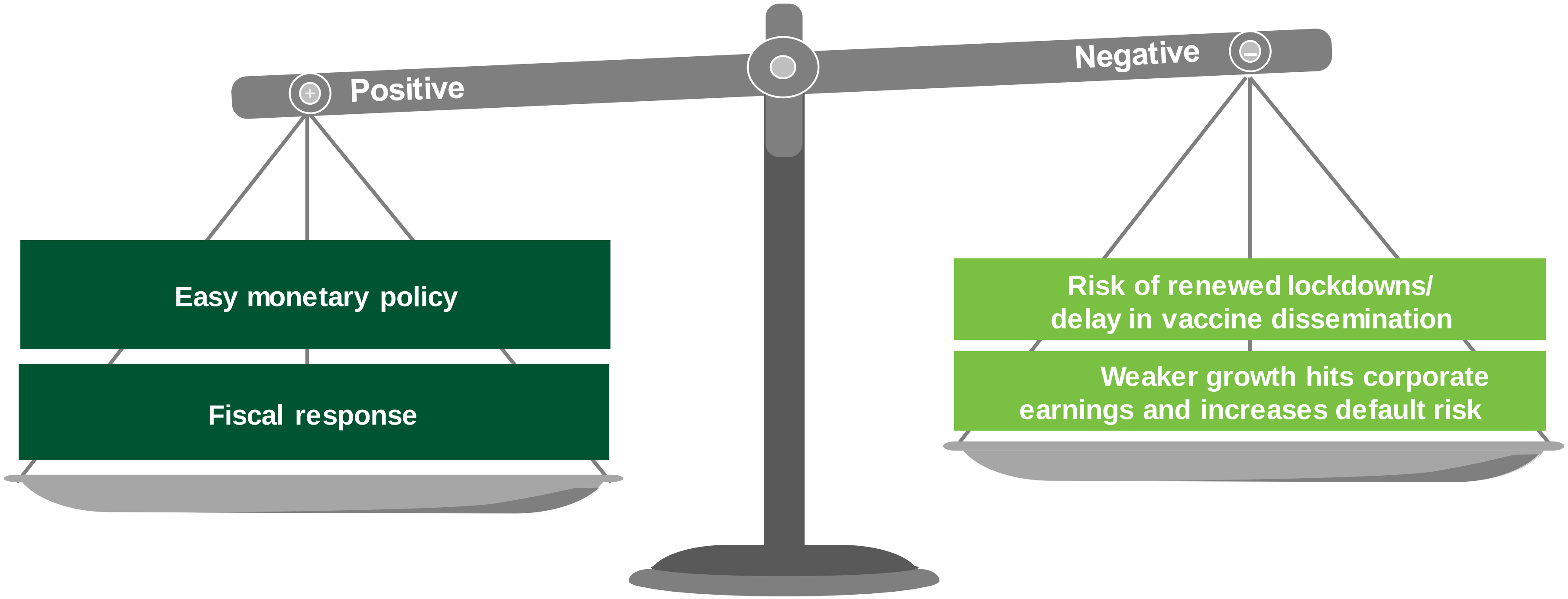


UK services sector is 80% of GDP

Source: Bloomberg as at December 2020.

Credit market outlook

More finely balanced



As at December 2020.

Important disclosures

Five-year performance record

Bonds Plus Fund

Calendar year returns to 31 December 2020

	2020	2019	2018	2017	2016	2015
Bonds Plus Fund (GBP)	1.06	2.61	-2.77	0.83	3.28	1.78
3-Month GBP LIBOR	0.29	0.80	0.72	0.35	0.50	0.58

12-month rolling returns to 31 December

	2019 - 2020	2018 - 2019	2017 - 2018	2016 - 2017	2015 - 2016
Bonds Plus Fund (GBP)	1.06	2.61	-2.77	0.83	3.28
3-Month GBP LIBOR	0.29	0.80	0.72	0.35	0.50

Please refer to the following risk disclosures. The Bonds Plus Fund is gross of fees and in GBP. Inception date: 31 August 2006. Fees and charges apply and can have a material effect on the performance of your investment.

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 and charges and these can have a material detrimental effect on the performance of an investment.
- Any target performance aims are not a guarantee, may not be achieved and a capital loss may occur. 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.
- Portfolio holdings are subject to change, for information only and are not investment recommendations.

Associated investment risks

Fixed income

- Where the portfolio holds over 35% of its net asset value in securities of one governmental issuer, the value of the portfolio may be profoundly affected if one or more of these issuers fails to meet its obligations or suffers a ratings downgrade.
- A credit default swap (CDS) provides a measure of protection against defaults of debt issuers but there is no assurance their use will be effective or will have the desired result.
- The issuer of a debt security may not pay income or repay capital to the bondholder when due.
- Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.
- Investments in emerging markets can be less liquid and riskier than more developed markets and difficulties in accounting, dealing, settlement and custody may arise.
- Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.
- Where high yield instruments are held, their low credit rating indicates a greater risk of default, which would affect the value of the portfolio.
- The investment manager may invest in instruments which can be difficult to sell when markets are stressed.
- Where leverage is used as part of the management of the portfolio through the use of swaps and other derivative instruments, this can increase the overall volatility. While leverage presents opportunities for increasing total returns, it has the effect of potentially increasing losses as well. Any event that adversely affects the value of an investment would be magnified to the extent that leverage is employed by the portfolio. Any losses would therefore be greater than if leverage were not employed.
- While efforts will be made to eliminate potential inequalities between shareholders in a pooled fund through the performance fee calculation methodology, there may be occasions where a shareholder may pay a performance fee for which they have not received a commensurate benefit.

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Bonds Plus Fund

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- **Investors should read the fund's offering documents before investing in the fund. Information about the role of BNY Mellon, its controlled affiliates, and their employees in sponsoring or providing services to the fund are described in the Volcker Rule section of the offering documents.**

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