FINANCIAL PROMOTION/MARKETING MATERIAL
FOR PROFESSIONAL CLIENTS AND QUALIFIED INVESTORS ONLY
NOT TO BE REPRODUCED WITHOUT PRIOR WRITTEN APPROVAL
PLEASE REFER TO ALL RISK DISCLOSURES AT THE BACK OF THIS DOCUMENT

FEBRUARY 2024

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

KEY STATS: 31 DECEMBER 2023[1]

Yield:	Contractual duration:	Anticipated duration:	YTD performance to end Dec 23:
7.75%	3 years	1.86 years	+12.36% (euro terms)

STRATEGY OVERVIEW: FOCUSED ON VISIBLE CASHFLOWS

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

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

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

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

MINIMISING DEFAULT RISK

In addition to our focus on visible cashflows, we also avoid issues with a rating in the CCC category other than the subordinated debt of higher rated issuers. For CCC-rated subordinated debt, the default risk is that of the higher rated BB or B rated company. Although CCC rated issuer paper offers a yield premium, in our view it is generally not sufficient to compensate for the higher default risk (see Figure 1). Although Insight classifies a default as losing more than 50 points on an investment, more conservative than the traditional classification, we have experienced very few defaults since the inception of our strategy relative to the broader high yield universe (see Figure 2).

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

BB	1.2%
B	3.3%
CCC	9.1%
Aggregate high yield	3.7%

Figure 2: Default rates[3]

	Calendar year												
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Short dated HY strategy	0	0	0	1	0	0	0	0	0	2	0	0	0
Global HY universe	159	90	54	219	98	73	116	145	105	64	73	72	45

[1] Source: Insight. Data as at 31 December 2023. The return of the strategy is a representative account for the global short-dated high yield bond strategy in euros (C0810SCEUR), gross of fees with an inception date of 30-Nov-2016. Yield is yield to worst.

[2] Source: Moody's Annual default study 2023. Default data covers period 1920 to 2022.

[3] Source: Insight. Data as at 31 December 2023. Insight classifies a default as a loss of more than 50 points on an investment.

HOW DID THE STRATEGY PERFORM IN 2023?

2023 saw periods of extreme volatility as market participants tried to gauge the peak in the hiking cycle and determine when central banks may start to ease policy. With economic data proving broadly more resilient than expected, hopes of a soft landing grew, but fears that economies could tip into recession were ever present. Against this backdrop the 10-year US Treasury yield rose to a high of 4.99%, before ending the year back at 3.88%, virtually exactly where it started. A combination of heightened volatility and macro uncertainty resulted in limited issuance, and the global high yield market ended the year at $6.5 trillion, unchanged over the year. A combination of high income and spread tightening drove a strong positive performance in 2023, with the strategy generating a gross 14.71% performance in US dollars, and a gross 12.36% in euros (see Figure 3). This outperformed the broader high yield market and investment grade credit.

Figure 3: Performance of the short-dated high yield strategy versus high yield benchmarks in 2023[4]

	2021	2022	2023
BNYM Global Short Dated High Yield	USD 5.63% EUR 4.69%	USD -3.14% EUR -5.11%	USD 14.71% EUR 12.36%
Euro HY	3.35%	-11.48%	12.00%
US HY	5.36%	-11.22%	13.45%
Euro IG	-1.02%	-13.94%	8.02%
US IG	-0.95%	-15.44%	8.39%

STRATEGY OUTLOOK

The strategy ended 2023 with an average coupon of just under 6%. As more companies come to the market to refinance, we expected the average coupon to increase through the year. We are currently observing issuers that have bonds maturing in 2025 and 2026 with coupons sub 3% come to markets to refinance with coupons of around 6% to 7%. This should allow us to gradually raise our average coupon.

In addition, the average price of the bonds we hold within the strategy is around 95, a level well below the price issuers would have to pay to call the bonds early. We hold a large percentage of these issues in 2025 and 2026 maturities and expect around 60bn euros of 2025 maturities to be refinanced in 2024. Historically we have seen around 4% of our holdings called each month, and we see no reason for this to change in the current environment. This would result in around 50% of our holdings being called in 2024; **we would benefit from this capital appreciation if this proved to be correct.**

As bonds get called, we are able to invest these proceeds into new issues, locking in higher coupons and income for a further two years or more. In our view, this environment is one in which it should be possible to generate another strong positive annual return. If central banks do start to reduce rates, it should benefit the prices of newer issues we have purchased, where call dates remain distant, while at the same time being a positive for corporate refunding rates and the market as a whole.

[4] Insight and Bloomberg. The return of the strategy is a representative account for the global short-dated high yield bond strategy in euros (C0810SCEUR) and US dollars (C0810), gross of fees with an inception date of 30-Nov-2016 and 30-Nov-2009 respectively. Gross of fees. The market indices have been shown against the ICE Bank of America US and Euro High Yield Index. Data as at 31 December 2023.

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

When we examine the US high yield market, which is the largest and deepest high yield market, a number of factors reassure us. Global profit margins remain high. High-yield issuers have deleveraged, and extended their maturity profiles, locking in funding when interest rates were low. As a result, interest coverage, which is the number of times interest payments are covered by earnings before interest and taxes, remains elevated. Default rates have increased from their lows but remain close to long-term average levels. The consensus amongst forecasters is that defaults will not rise materially over the next few years.

Figure 4: Global corporate profit margins remain high[5]

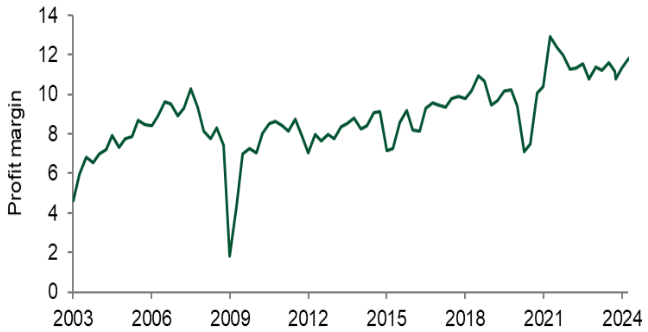


Figure 5: Leverage has fallen significantly[5]

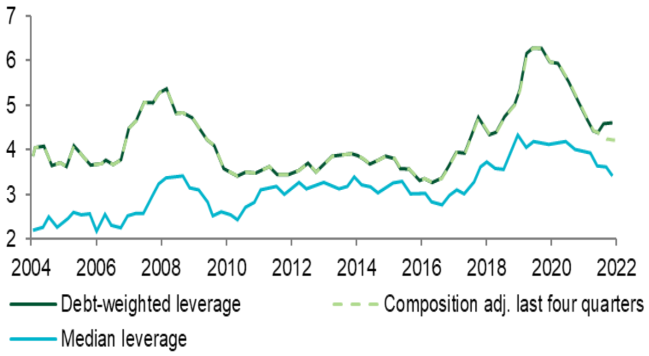


Figure 6: Coverage ratios for HY companies[5]

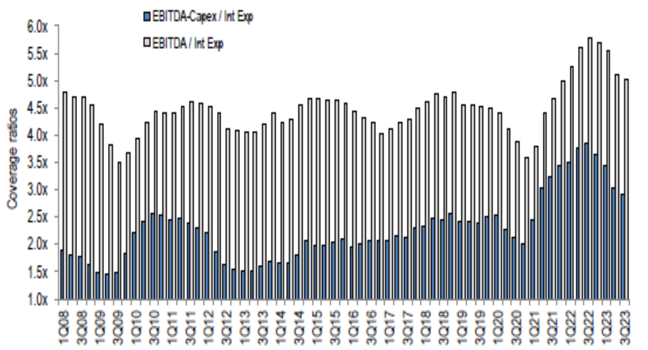
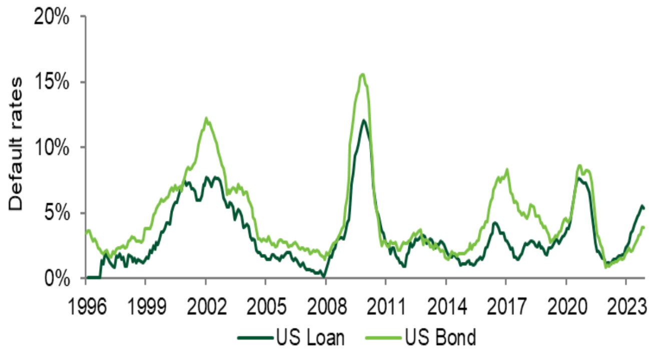


Figure 7: These factors have kept default rates low[6]



[5] Source: JP Morgan as at 30 November 2023. Data compiled by investment banks is market wide, not related to any individual index and for illustrative purposes only.

[6] Source: Moody's Investor Services as at 30 November 2023.

PERFORMANCE

TEN-YEAR PERFORMANCE RECORD TO 31 DECEMBER 2023

	Calendar year returns									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Short-dated high yield bond strategy (USD)	14.71	-3.14	5.63	1.87	8.84	1.24	6.47	--	--	--
Comparator (USD)	4.90	4.90	1.17	0.06	0.56	2.28	2.28	1.19	--	--
Short-dated high yield bond strategy (GBP)	14.05	-3.68	5.41	0.43	6.93	-0.41	5.23	7.95	4.06	1.54
Comparator (GBP)	4.34	1.03	-0.03	0.17	0.68	0.60	0.23	0.38	0.45	0.42
Short-dated high yield bond strategy (EUR)	12.36	-5.11	4.69	0.06	5.59	-1.65	4.36	--	--	--
Comparator (EUR)	3.27	0.35	-0.65	-0.54	-0.49	-0.47	-0.47	--	--	--

	12-month rolling returns									
	2022-2023	2021-2022	2020-2021	2019-2020	2018-2019	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014
Short-dated high yield bond strategy (USD)	14.71	-3.14	5.63	1.87	8.84	1.24	6.47	--	--	--
Comparator (USD)	4.90	4.90	1.17	0.06	0.56	2.28	2.28	1.19	--	--
Short-dated high yield bond strategy (GBP)	14.05	-3.68	5.41	0.43	6.93	-0.41	5.23	7.95	4.06	1.54
Comparator (GBP)	4.34	1.03	-0.03	0.17	0.68	0.60	0.23	0.38	0.45	0.42
Short-dated high yield bond strategy (EUR)	12.36	-5.11	4.69	0.06	5.59	-1.65	4.36	--	--	--
Comparator (EUR)	3.27	0.35	-0.65	-0.54	-0.49	-0.47	-0.47	--	--	--

The short-dated high yield bond composites (C0810SCUSD, C0810 and C0810SCEUR) are gross of fees and in USD, GBP and EUR respectively, with inception dates of 31-Jul-2013, 30-Nov-2009 and 30-Nov-2016. Effective 1 November 2021, the comparator for C0810SCUSD changed from the 3-Month USD LIBOR to SOFR (Secured Overnight Financing Rate) and the comparator for C0810 changed from the 3-Month GBP LIBOR to SONIA (Sterling Overnight Index Average) (90-day compounded). All benchmark past performance prior to this date was calculated against 3-Month GBP LIBOR. The comparator for C0810SCEUR is the euro short-term rate (€STR). Fees and charges apply and can have a material effect on the performance of your investment.

IMPORTANT INFORMATION

RISK DISCLOSURES

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

The performance results shown, whether net or gross of investment management fees, reflect the reinvestment of dividends and/or income and other earnings. Any gross of fees performance does not include fees, taxes and charges and these can have a material detrimental effect on the performance of an investment. Taxes and costs incurred when purchasing, holding, converting or selling any investment, will impact returns. Costs may increase or decrease as a result of certain currency conversions, such as currency hedging, and exchange rate fluctuations.

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

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

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

BNY Mellon Global Short-Dated High Yield Bond Fund

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

Currency Risk: This Fund invests in international markets which means it is exposed to changes in currency rates which could affect the value of the Fund.

Derivatives Risk: Derivatives are highly sensitive to changes in the value of the asset from which their value is derived. A small movement in the value of the underlying asset can cause a large movement in the value of the derivative. This can increase the sizes of losses and gains, causing the value of your investment to fluctuate. When using derivatives, the Fund can lose significantly more than the amount it has invested in derivatives.

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

Credit Ratings and Unrated Securities Risk: Bonds with a low credit rating or unrated bonds have a greater risk of default. These investments may negatively affect the value of the Fund.

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

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

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

Share Class Hedging Risk: The hedging strategy is used to reduce the impact of exchange rate movements between the share class currency and the base currency. It may not completely achieve this due to factors such as interest rate differentials.

Counterparty Risk: The insolvency of any institutions providing services such as custody of assets or acting as a counterparty to derivatives or other contractual arrangements, may expose the Fund to financial loss.

FIND OUT MORE

Institutional Business Development
businessdevelopment@insightinvestment.com

European Business Development
europe@insightinvestment.com

Consultant Relationship Management
consultantrelations@insightinvestment.com

@InsightInvestIM

company/insight-investment

www.insightinvestment.com