



# Overcoming behavioural biases in UK Income

Emma Mogford – Portfolio Manager

The Insurance Institute of Sheffield

Managed by



# Introducing BNY Mellon Investment Management

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The investment management arm of BNY Mellon, one of the world's largest financial services groups

## Our business

With a presence around the world, we look to connect investors with opportunities across every major asset class.

We believe the right results begin by being relevant to every client, whether that is engaging the way they want, offering diversified strategies, or providing advice and quality insights for better informed decisions.

To achieve this, we have built our model around investors' needs. Offering the best of both worlds, we bring together

world-class investment firms, with their best of breed talent and unique cultures, backed by the strength, stability and global presence of BNY Mellon, one of the world's most trusted investment partners.

Our clients include asset managers, banks, broker-dealers, central banks, companies, family offices, financial intermediaries, governments, insurance companies, investment advisers, non-profit organisations, pension funds and sovereign institutions.



# Together we manage and service financial assets...

...for institutions, corporations and individual investors around the world

## BNY Mellon Investment Management

Institutional and retail asset management

Wealth management for individuals and families

**1.8**  
US\$ trillion

Assets under management<sup>1</sup>

**7<sup>th</sup>**  
largest

Investment manager worldwide<sup>2</sup>

**4<sup>th</sup>**  
largest

US institutional money manager<sup>3</sup>

**85**  
US\$ billion

Private client assets under management<sup>1</sup>

**13<sup>th</sup>**  
largest

US wealth manager<sup>4</sup>

## BNY Mellon Investment Services

Full range of financial operations, cash management and global payments services

**35.2**  
US\$ trillion

Assets under custody and administration<sup>1</sup>

**#1**  
largest

Global custodian in the world<sup>5</sup>

**3.7**  
US\$ trillion

Average tri-party collateral management balances<sup>1</sup>

Sources: 1. BNY Mellon Finance, 31 March 2020. Assets under management (AUM) includes the asset managers outlined in this file (with the exception of Siguler Guff), as well as BNY Mellon Investment Adviser, Inc., BNY Mellon Wealth Management and external data. 2. Willis Towers Watson, 29 October 2019. Based on discretionary assets under management at the end of 2018; does not include saving/current accounts or assets unrelated to investment business, assets under administration and custody, money market funds, advisory portfolios, or transactional assets. Analysis based on data supplied to by third parties in US dollars. 3. Pensions & Investments, May 2019. Rankings based on a survey of more than 580 investment management firms providing information in response to an online survey. In order to qualify for inclusion the firm must manage assets for US institutional tax-exempt clients. Ranked by total worldwide institutional assets under management as at 31 December 2018. 4. ADV Ratings.com, Top Wealth Management Firms, by AUM as at March 2019. 5. Globalcustody.net as of 31 March 2019.

# Our model: The best of both worlds

Providing specialist expertise from our world-class investment firms backed by the strength, proven stewardship and global presence of BNY Mellon

**The size, scale and distribution capability of BNY Mellon, with proven financial stewardship in which clients entrust their money**



**Our investment managers dedicated to delivering solutions their clients need, in today's challenging world**

**Creative and critical thinkers, strong relationships, collective intelligence, operational excellence, choice of access, better fit of strategy to client need**

 **Alcentra**

 **ARX**

 **Dreyfus**  
Cash Investment Strategies

 **Insight**  
INVESTMENT

 **MELLON**

 **NEWTON**  
Investment Management

 **SIGULER & GUFF**

 **WALTER SCOTT**

Investment Managers are appointed by BNY Mellon Investment Management EMEA Limited (BNYMIM EMEA), BNY Mellon Fund Management (Luxembourg) S.A. (BNY MFML) or affiliated fund operating companies to undertake portfolio management activities in relation to contracts for products and services entered into by clients with BNY MIM EMEA, BNY MFML or the BNY Mellon funds.

# Our world-class investment firms

Located across the Americas, EMEA and Asia Pacific; bringing our clients clear, independent thinking from some of the world's sharpest investment minds



Global sub-investment  
grade debt

AUM:  
US\$33.3bn



Brazilian equity, long/short, long-  
only, multi-strategy and fixed income

AUM:  
US\$4.8bn



Money  
markets

AUM:  
US\$251.5bn



LDI, fixed income, absolute return,  
specialist equity

AUM:  
US\$844.6bn



Active and passive research-driven  
solutions across asset classes

AUM:  
US\$467.7bn



Active equity and bonds, multi-asset,  
real return and income

AUM:  
US\$53.3bn



Multi-strategy private equity investing;  
direct investment and fund-of-funds

AUM:  
US\$14.0bn

WALTER SCOTT

Active  
global equity

AUM:  
US\$63.1bn

Total AUM  
US\$1.8tn

Investment Managers are appointed by BNY Mellon Investment Management EMEA Limited (BNY MIM EMEA), BNY Mellon Fund Management (Luxembourg) S.A. (BNY MFML) or affiliated fund operating companies to undertake portfolio management activities in relation to contracts for products and services entered into by clients with BNY MIM EMEA, BNY MFML or the BNY Mellon funds.

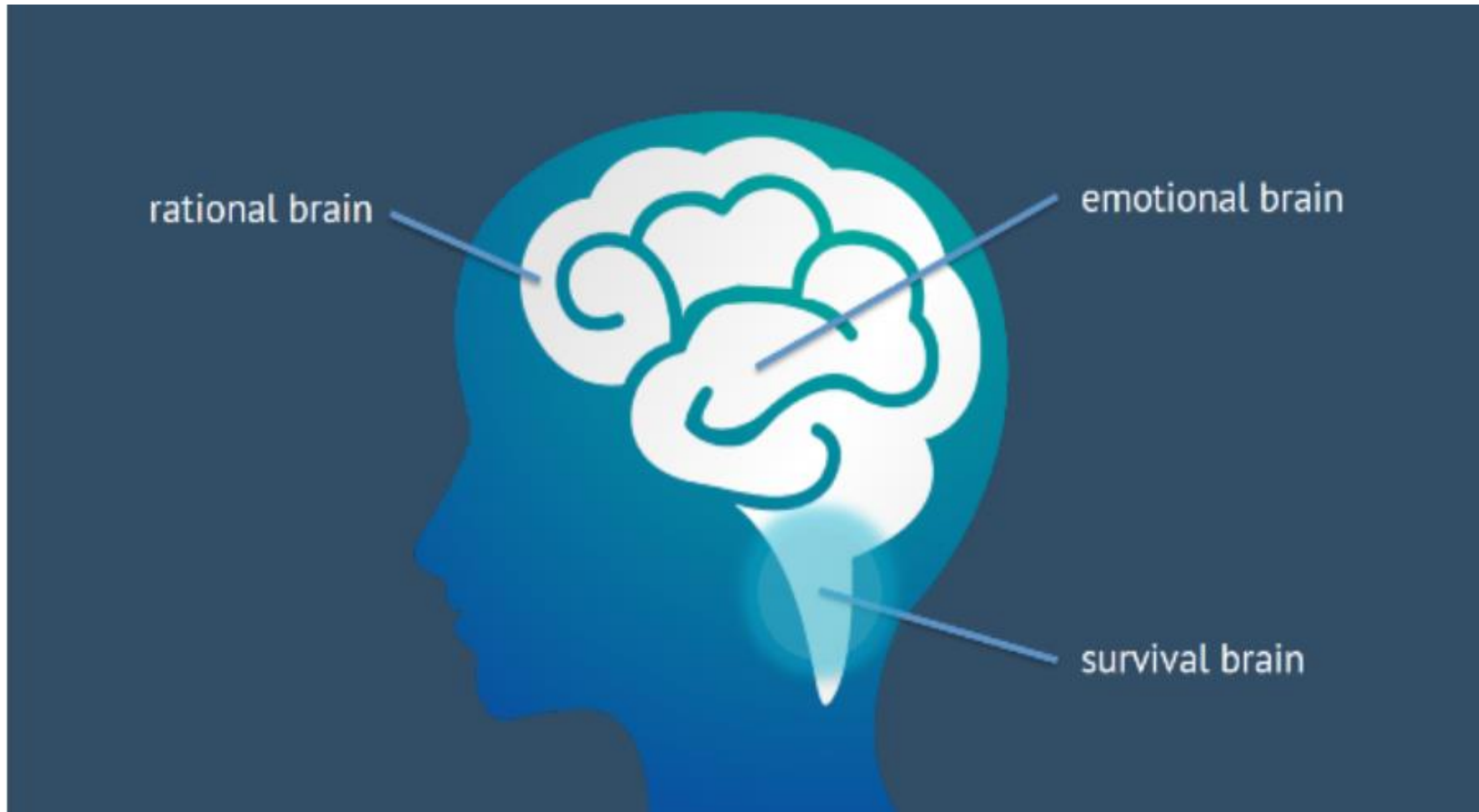
Total AUM has been provided by BNY Mellon Finance as at 31 March 2020 and includes the asset managers outlined in this file (with the exception of Siguler Guff) as well as BNY Mellon Investment Adviser, Inc, BNY Mellon Wealth Management and external data. Individual AUMs provided by respective investment firms as at 31 March 2020, unless otherwise stated. Siguler Guff AUM as at 31 December 2019. The Bank of New York Mellon Corporation holds a 20% minority interest in Siguler Guff & Company LLC and certain related entities.

### Learning Objectives:

1. Understanding how behavioural biases affect investors and the disciplines to overcome them
2. Explain why after BREXIT and dividend cuts the UK looks an attractive investment opportunity
3. Understanding the role of income investing in the current economic environment

# BEHAVIOURAL BIASES

**Rational brain capable of incredibly complex reasoning...**



**...but not when over-ridden by the emotional brain**



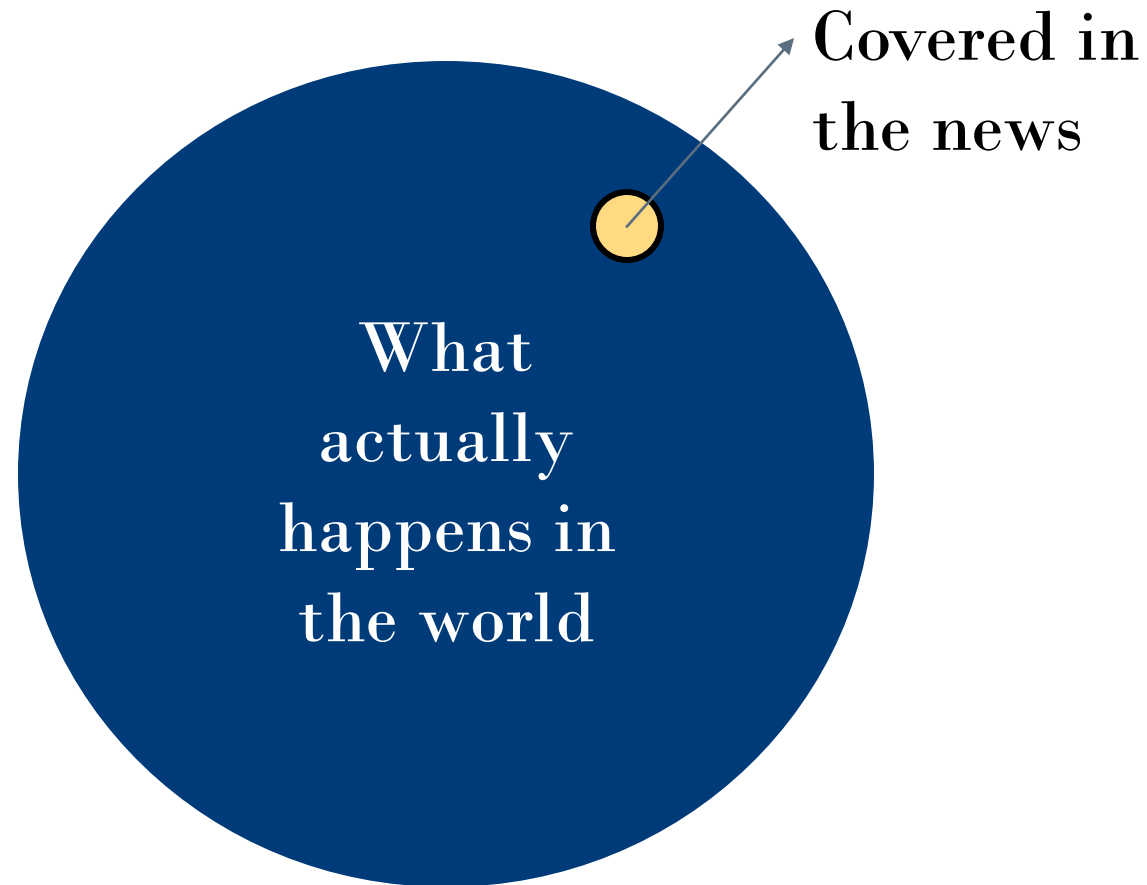
“ How would you rate your driving skill relative to the average driver?” 88% of Americans responded better than average

(Source: Are we all less risky and more skillful than our fellow drivers? Ola Svensen, published 1981 in Acta Psychologica)

“IQ is positively correlated with the number of reasons people find to support their own side in an argument”

(Source:Duarte, J. L., Crawford, J. T., Stern, S., Haidt, J., Jussim, L., & Tetlock, P. E. (2015). Political diversity will improve social psychological science. Behavioral and Brain Sciences, 38, 1–13.)

## Availability bias is especially relevant during crises



**Evidence over opinion**

## Discipline is key to successful active management



McKinsey study 2017: An analytics approach to debiasing asset-management decisions found potential for **100-300bps improvement**

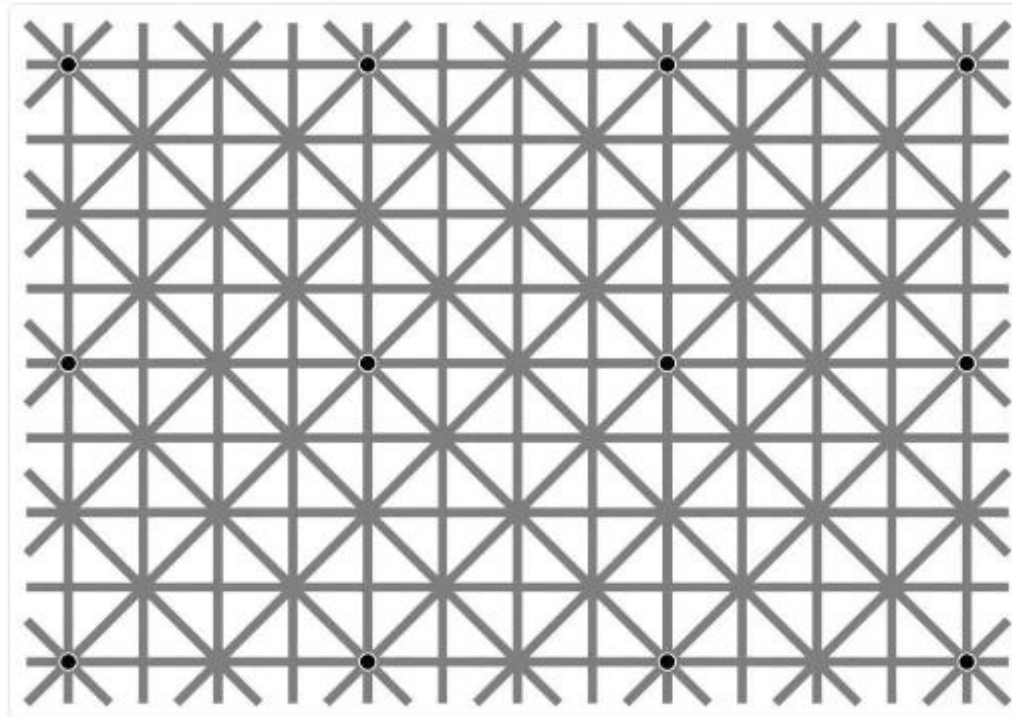
**Debiasing decisions adds alpha**

## More complex strategies at greater risk of mental shortcuts



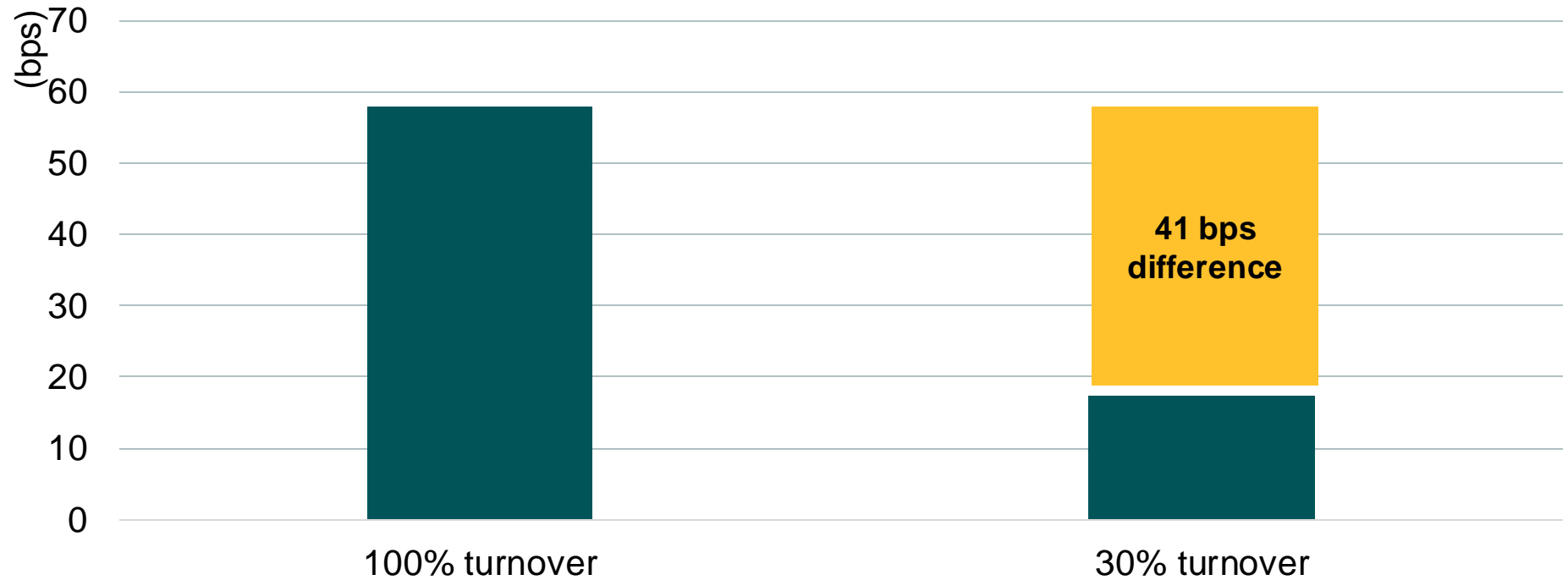
**Intrinsic Investing** @IntrinsicInv · 8h

You can't see all 12 black dots at once & you can't know 150 stocks (the avg mutual fund # of holdings) at once.



# Overcoming behavioural biases = thinking slow: take time over every decision

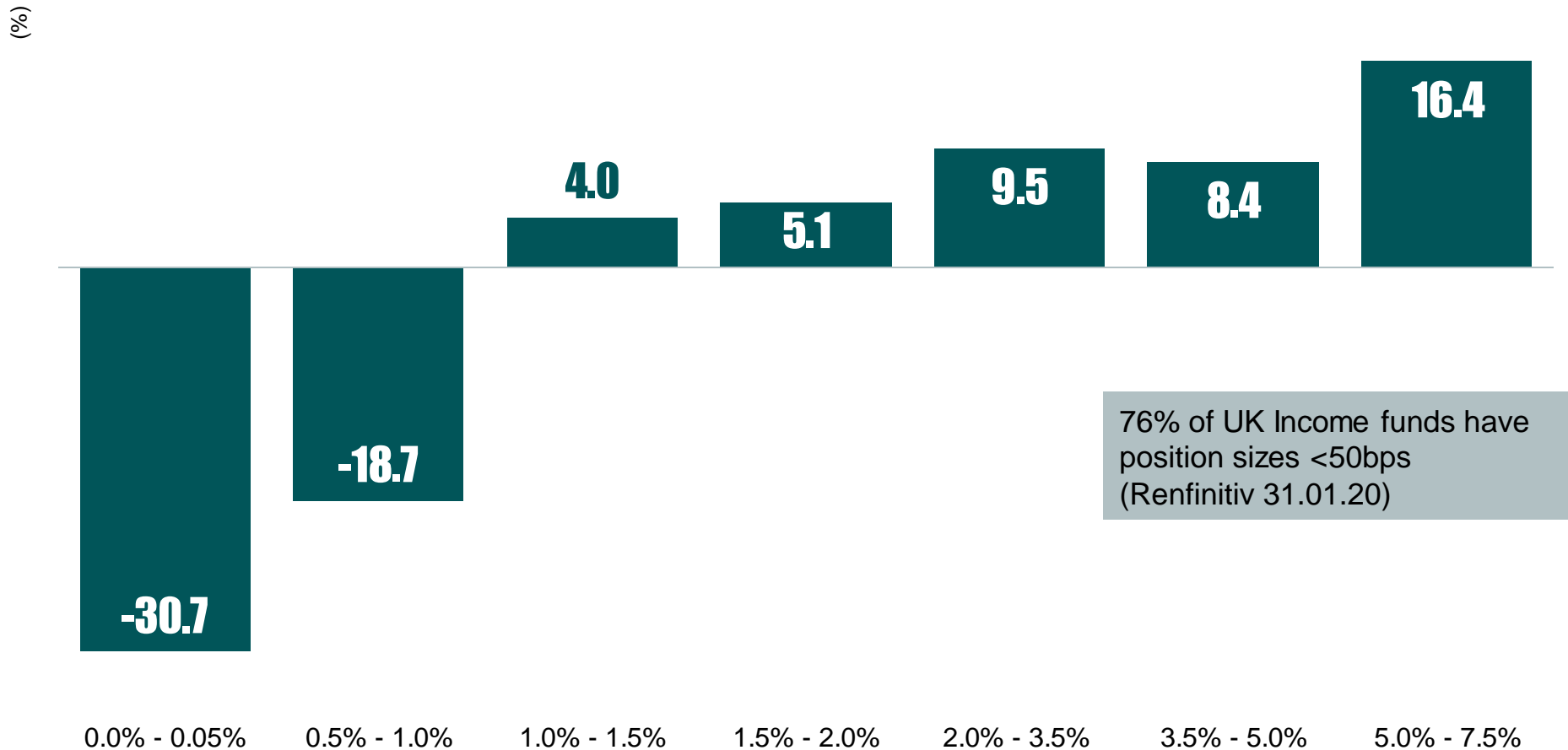
## Explicit cost of turnover



Note: Theoretical cost of turnover based on 100% UK portfolio where stamp duty is 50bps on all purchases plus commission cost at 4bps (2018 average commission cost at Newton for UK securities). This excludes the implicit costs of trading that are included in MIFID 2 disclosures.

## Smaller position sizes erode alpha

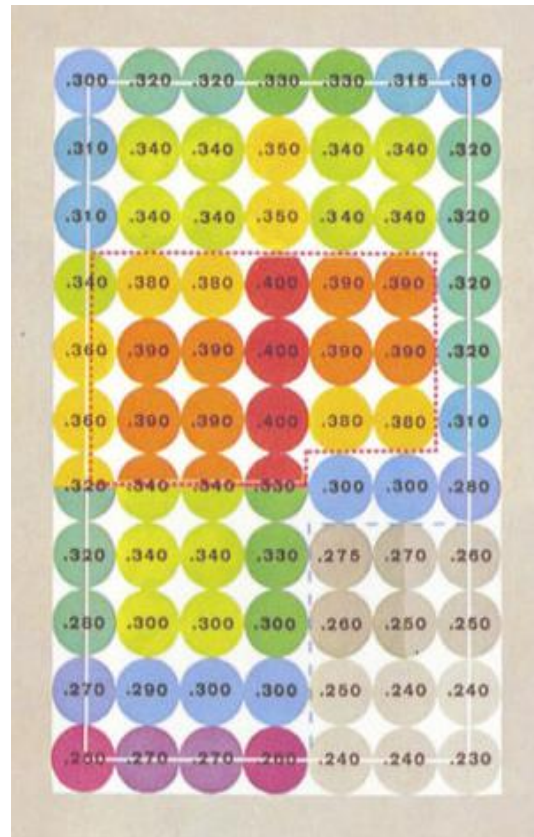
Study of hedge funds 2010-2015 looking at returns by position size (>1000 managers)



Source: Altshuler, Stan. 2017 "Focus on what you can control: Part 2 Behavioural" Novus research Review for Investment managers  
<https://thefundmanager.com/wp-content/uploads/2017/04/The-Novus-Research-Review-for-Investment-Managers.pdf>

**Small positions destroy alpha**

# Investing is a probabalistic exercise

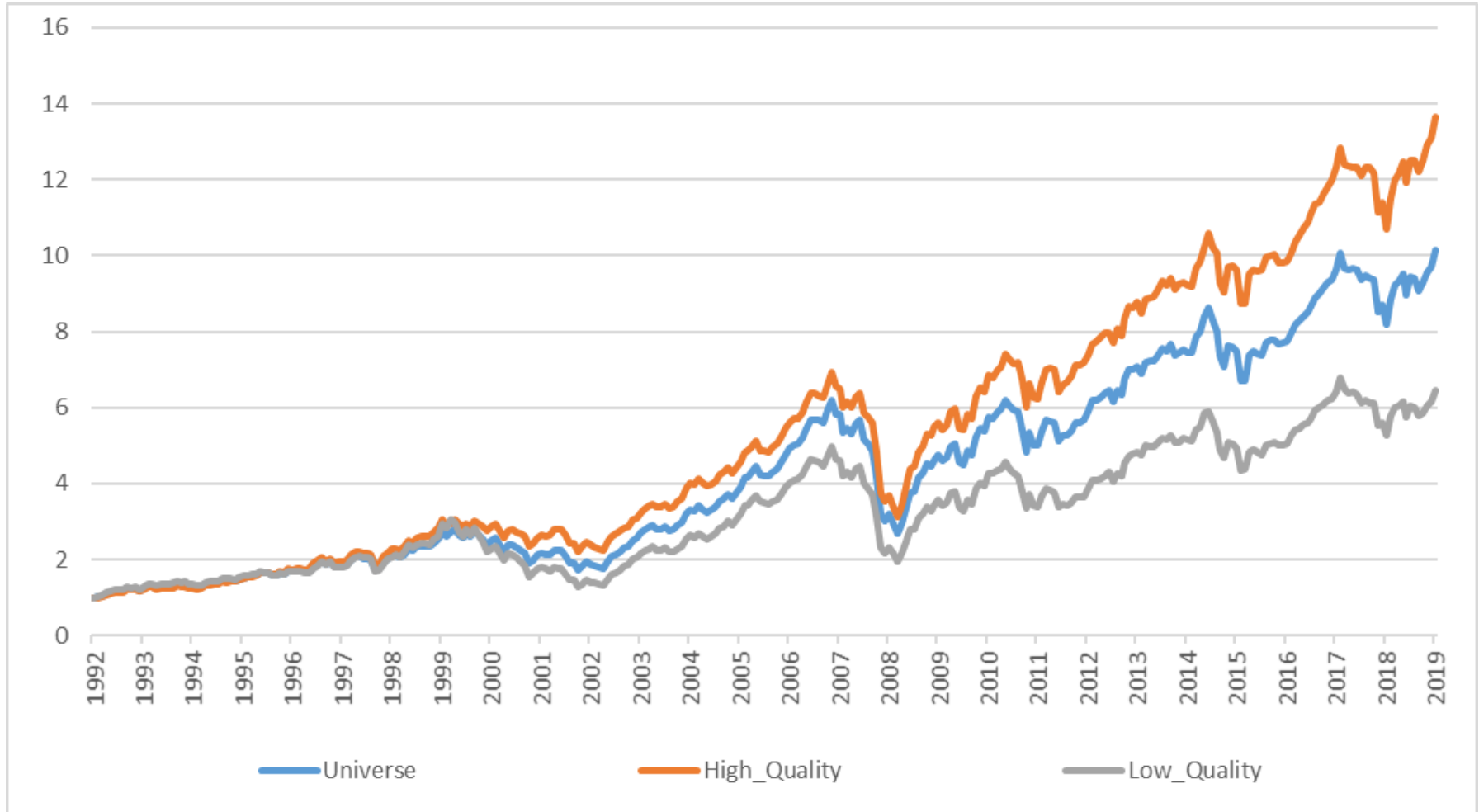


Most attractive  
segments of baseball  
pitches,

“The Science of Hitting”  
Ted Williams

## Stick to the statistically attractive – above average ROIC

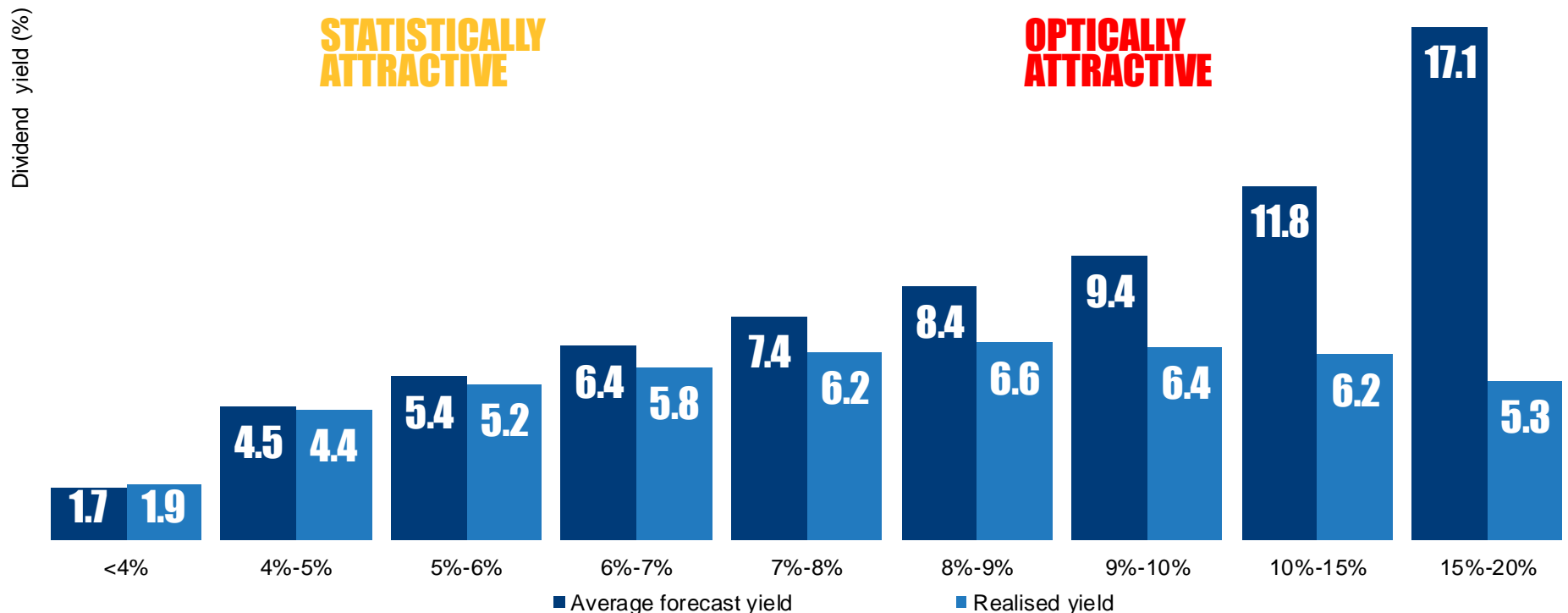
Credit Suisse HOLT performance of high quality and low quality companies as defined by CFROIC





# Stick to the statistically attractive – stock promising higher dividend yields frequently cut them

Comparing forecast and realised dividend yields since end-1995 to 31 December 2019



Source: SG Quantitative Research, FactSet, 31 December 2019.

**Moderate dividends are statistically attractive**

## Fund managers spend less time on sell decisions and lose alpha

**Buy decisions  
+120bps**



**Sell decisions  
-70bps**

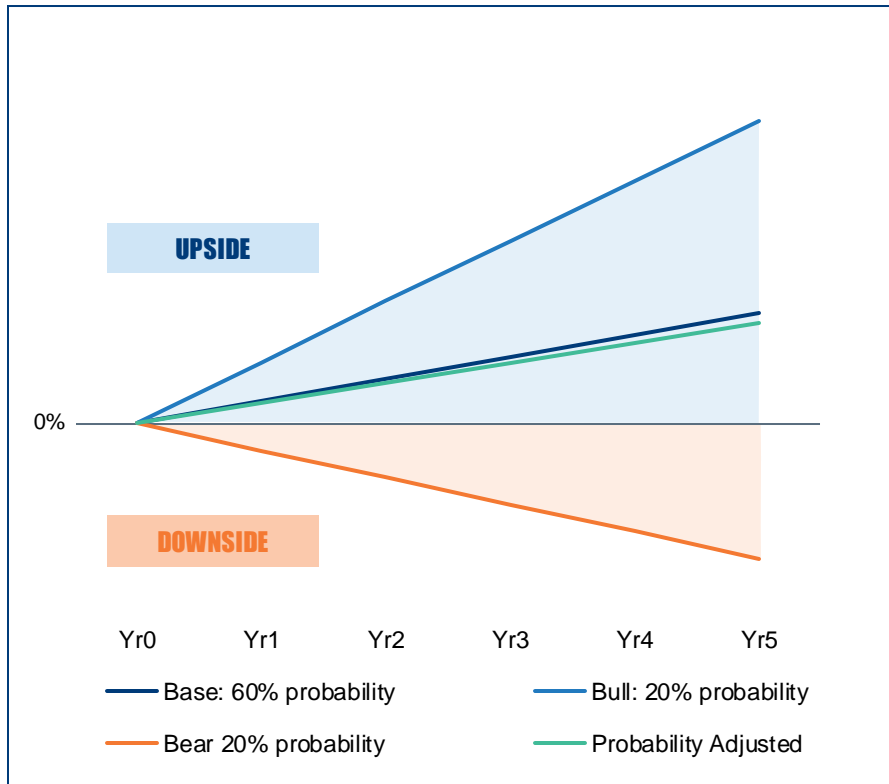
Source: Selling fast and buying slow, Akepaniditaworn et al 2019. Study of 800 portfolios averaging \$573m over 5 years. Sell decision compared with selling another stock in the portfolio selected at random

**Disciplined sale process important**

# Discipline in key

McKinsey estimates +100 to +300bps from debiasing decisions in asset management

**Overconfidence – think about range of outcomes rather than just one**



**Overconfidence – consistent checklist to every holding**

## CHECKLIST

Date	x
Price	x
Bucket	x
Target weight	x
Investment thesis	...
<b>What would change our view</b>	...
Quality and risk:	1 Returns > cost of capital ...
	2 Cash conversion ...
	3 Organic growth > inorganic ...
	4 Capital allocation ...
	5 Balance sheet strength ...
	6 Dividend sustainable ...
	7 FCF valuation ...
	8 Management ...
	10 ESG ...
	11 Remuneration ...
	12 Accounting score ...

McKinsey study in 2017: An analytics approach to debiasing asset-management decisions found  
"potential improvements of between 100 and 300 basis points"

**Commitment: valuation fans and checklist**

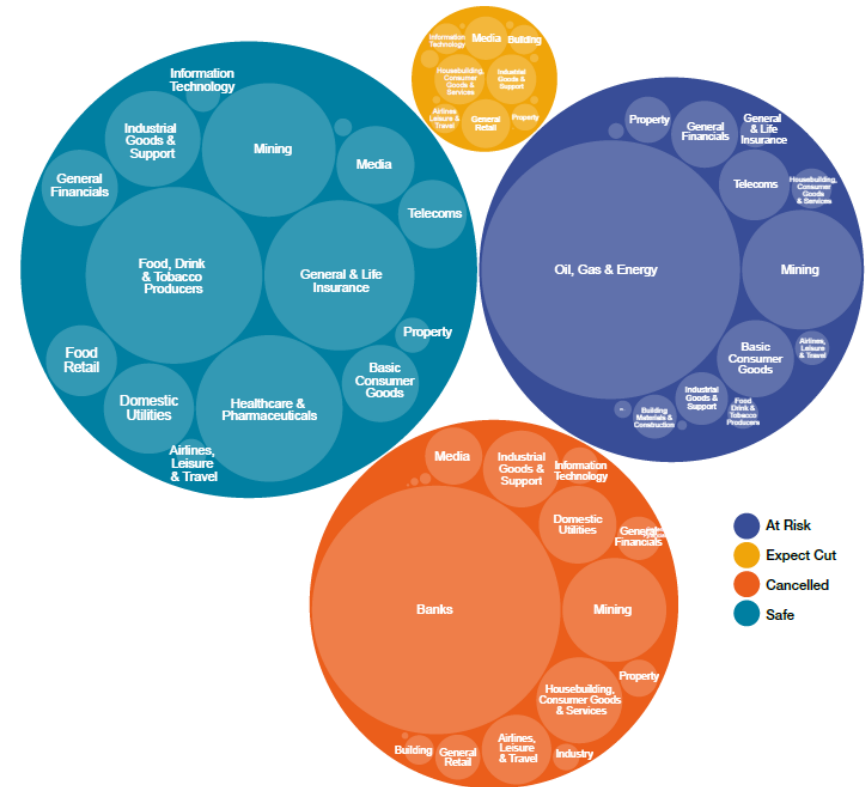
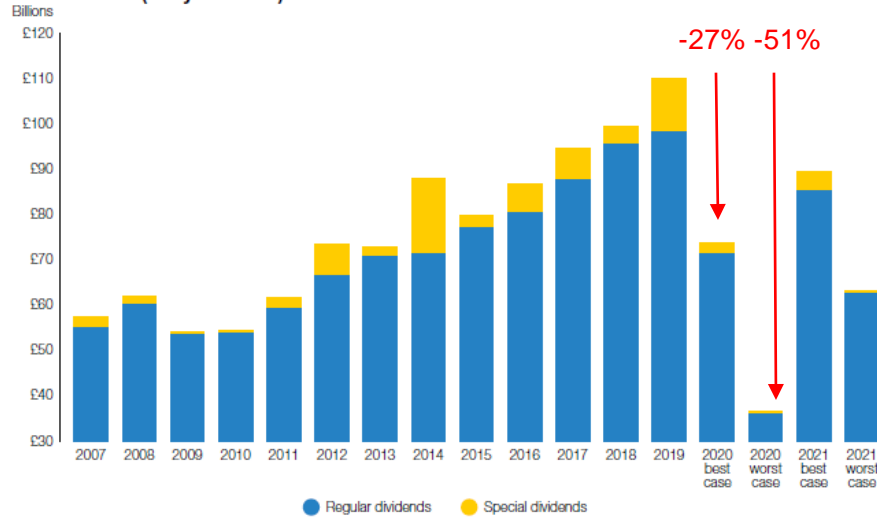
# POST COVID-19 OUTLOOK

# 2020 UK market dividend outlook

Link Q1 forecasts dividend (5<sup>th</sup> April 2020)

2020 dividends: 32% safe, 24% at risk and 27% cancelled or expected, 17% paid (Link Q1 2020)

UK dividends (full-year basis)



## Global dividend yields

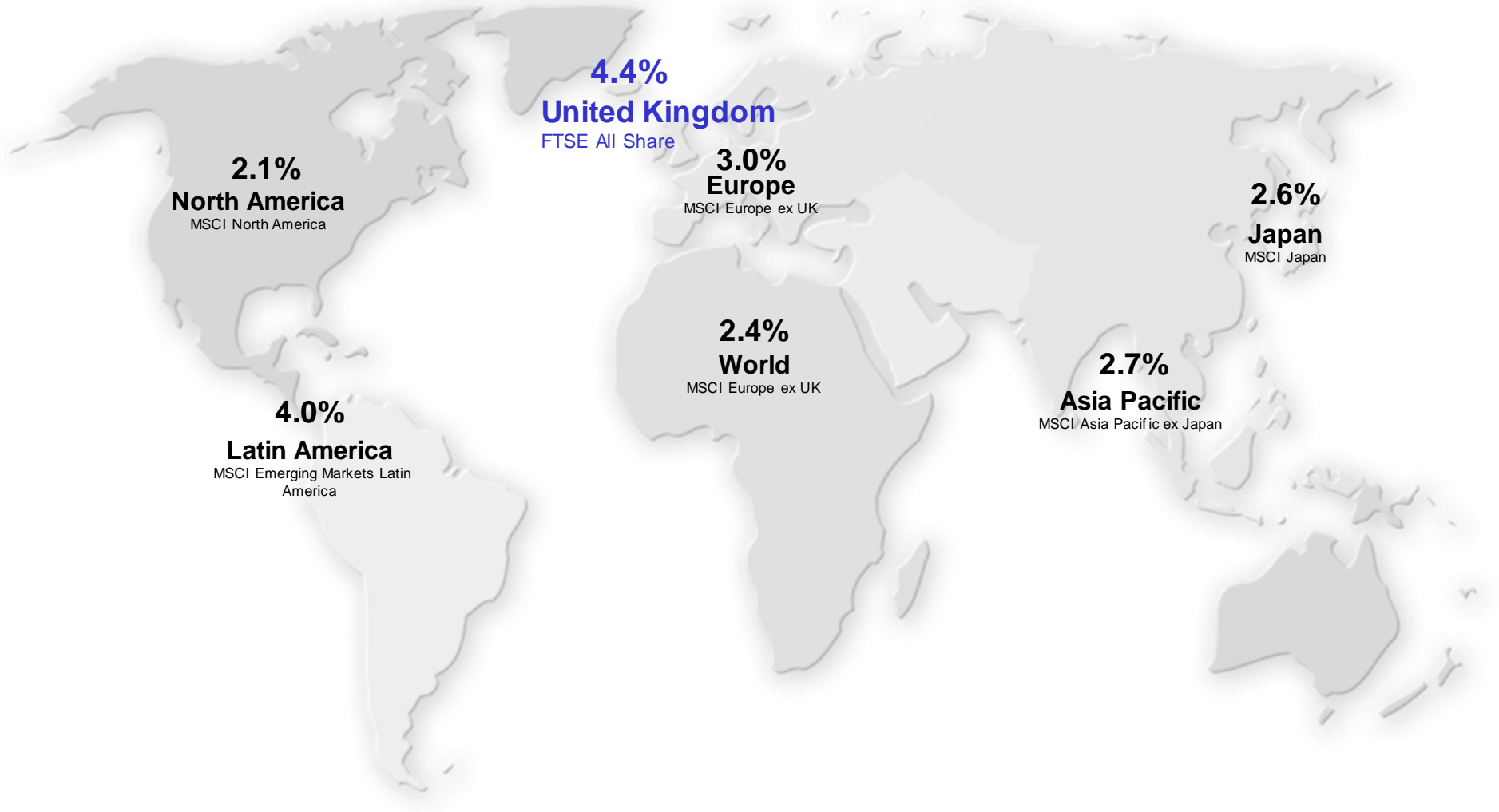
Link's 'realistic' forecast UK dividend yield

**2020:** 3.0% to 3.5%

**2021:** 4.0% to 4.6%

30year average: 3.5%

Index yield based on last 12months dividends (Bloomberg on 27<sup>th</sup> April 2020)

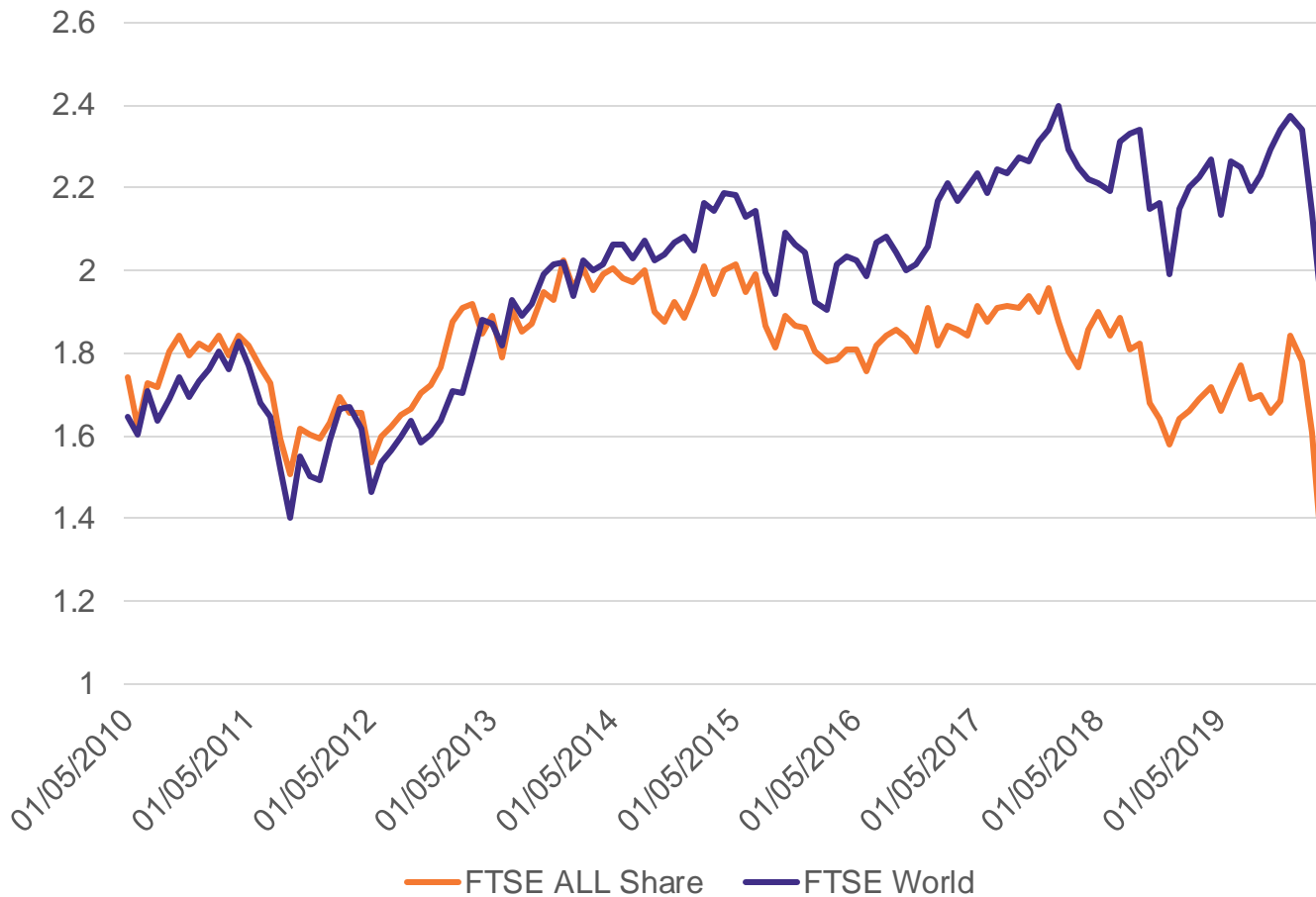


Source: Global index yields - Bloomberg 27<sup>th</sup> May 2020  
Link Q1 dividend monitor, 5<sup>th</sup> April 2020

**UK market still an attractive place for income**

## UK market valuation had been falling prior to Coronavirus crisis

Price to Book ratio of FTSE All Share and FTSE World index (Bloomberg 27<sup>th</sup> April 2020)



Source: Bloomberg, 27<sup>th</sup> April 2020

**UK market cheap**



# Getting (which) BREXIT done?

Significant uncertainty remains an overhang for the outlook for the UK economy

## ...will take time:

The fastest free trade deal that the EU has ever agreed was with Greenland, population smaller than Uxbridge, and it took 3 years to negotiate, Canada's deal took 7 years

## And will have negative consequences on UK businesses and consumer:

"Automotive capex already fallen from £2.5bn to £200m" CEO Unipart

Significant extra admin costs under WTO rules – £15bn estimate, HMRC estimate Oct '19

Additional cost to household +£130 to £961 according to report by Oliver Wyman (07.18)

## The BREXIT 'basket' of listed equities



UK banks,  
insurers and  
savings companies



House  
builders



UK manufacturing



Holiday  
companies



Restaurants,  
pubs and hotels

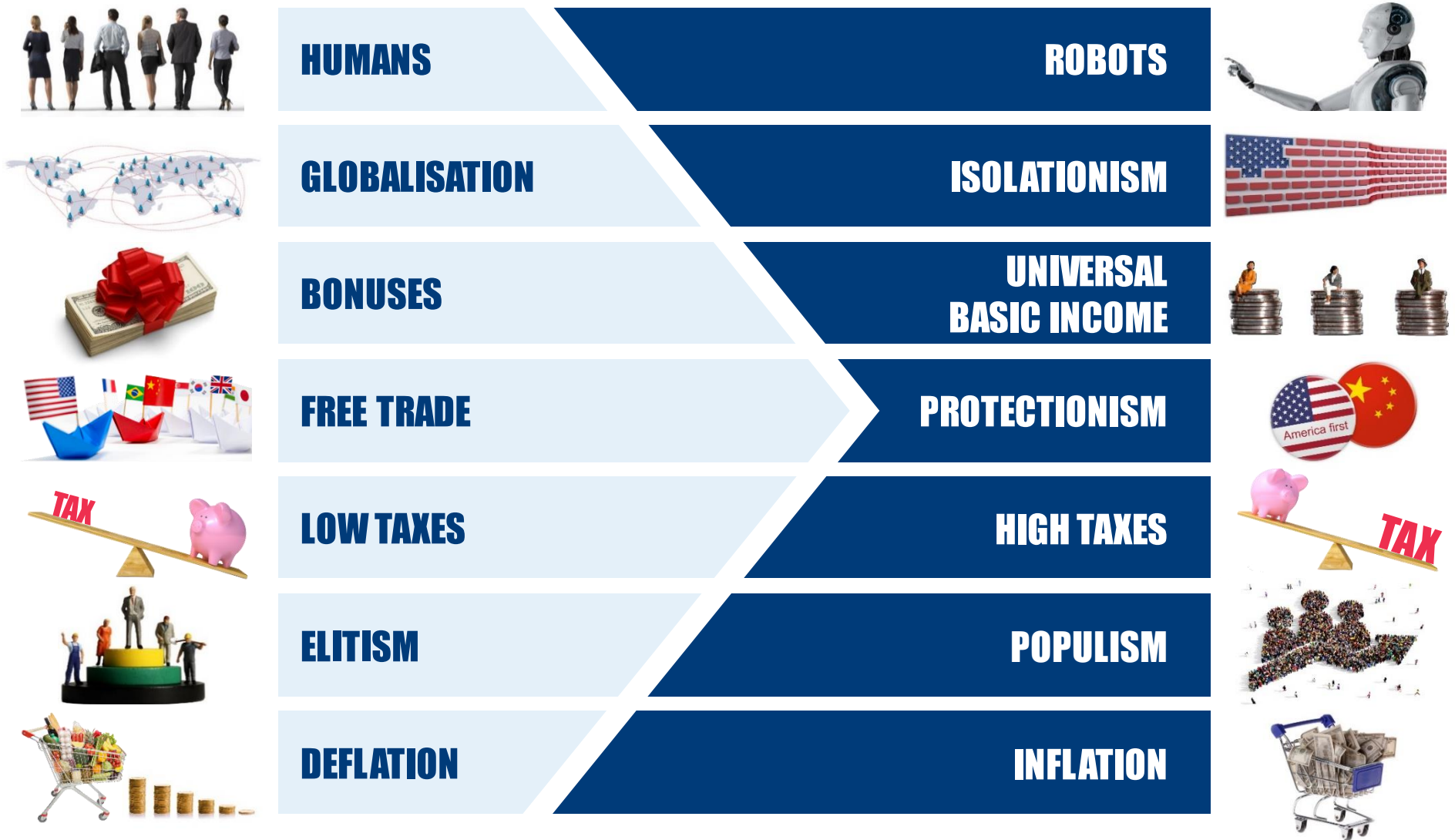


Food and  
clothes retailers

Uncertainty to remain in 2020 = balanced exposure



# A fast-evolving backdrop

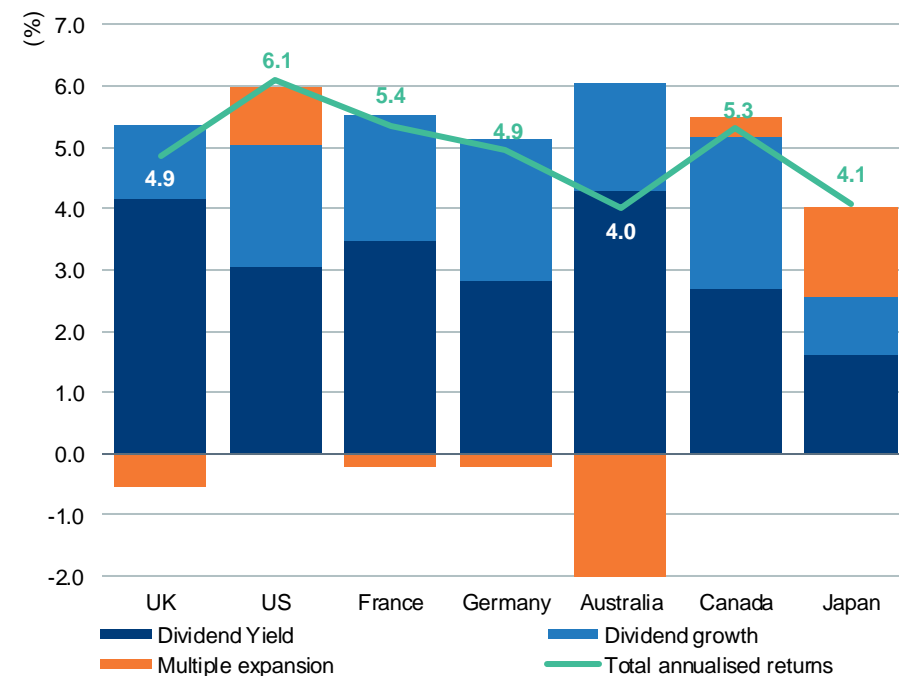


# **AN APPROACH TO INCOME INVESTING**

# The profound significance of dividends

## Real Return

Compounding effects of dividend yield dominates real returns in the long term (1970 – Q4 2018)



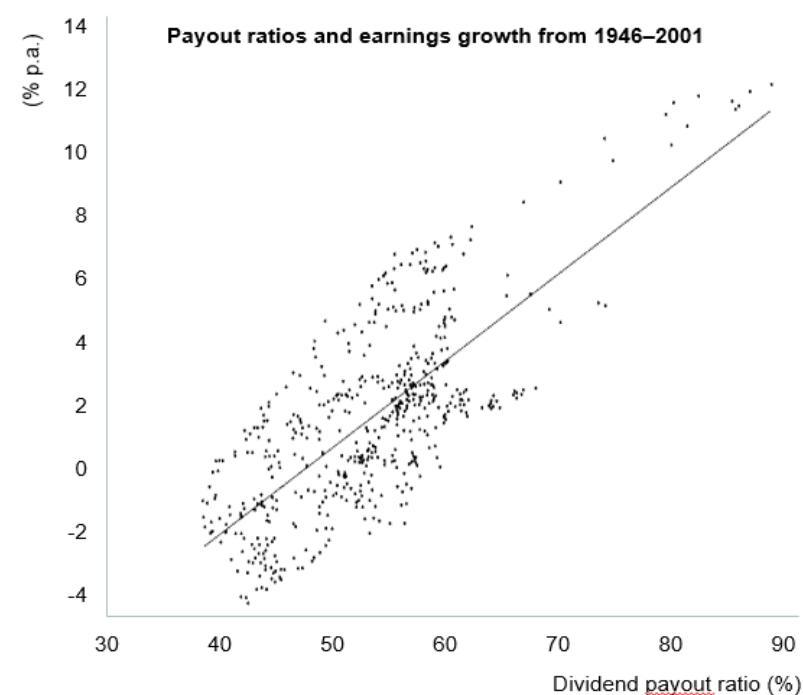
For illustrative purposes only.

Source: Thomson Datastream, total annualised real return in local currency, 31 December 2018.

**The *dominant* source of long-term real return**

## Capital allocation

Subsequent 10 year earnings growth



For illustrative purposes only.

Source: Arnott and Asness (2003) 'Surprise! Equity Dividends = Equity Earnings Growth' FAJ vol. 59, no. 1.

**Capital discipline tends to higher earnings growth**

**Dividends key to delivering total return**

# Integrated ESG<sup>1</sup>

ESG analysis enriches our fundamental analysis of risks and opportunities

PRI A+ ranked<sup>3</sup>  
Across all modules

UK stewardship  
code Tier 1<sup>4</sup>

**WHY?**

Impacts financial  
performance

Non standard, misunderstood  
and under researched

Successful engagement can  
lead to improved performance

**BP's Deepwater Horizon bill  
tops \$65bn<sup>5</sup>**

Firm's financial pain offset by rising oil  
prices as it winds down payouts from 2010  
disaster.



**Ryanair cancels 250 flights amid  
European strike action<sup>6</sup>**

Unions want staff to be given contracts in the  
countries where they live, rather than under Irish  
law as they are currently.



**“As long as the music is  
playing, we have to keep on  
dancing”<sup>7</sup>**

Statement by Chuck Prince in 2007,  
former CEO of Citibank Group



**HOW?**



Integrated  
research and  
analysis



Engagement  
&  
stewardship



Active proxy  
voting<sup>2</sup>



Policy &  
regulation

Notes: <sup>1</sup> Environmental, Social and Governance; <sup>2</sup> Where we retain voting authority. Only applies to corporate bonds where equity also held; <sup>3</sup> 2019 PRI report; <sup>4</sup> A signatory of the Financial Reporting Council UK Stewardship Code. Tier 1 is defined as: signatories provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary; <sup>5</sup> **Source:** <https://www.theguardian.com/business/2018/jan/16/bps-deepwater-horizon-bill-tops-65bn>; <sup>6</sup> **Source:** <https://www.express.co.uk/travel/articles/1023877/ryanair-flights-cancellation-delays-strikes-europe-strike-news-cancelled-flight-list>; <sup>7</sup> **Source:** <https://www.theguardian.com/commentisfree/2007/nov/06/comment.business>.  
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This slide is for information purposes only and does not constitute an offer or solicitation to invest.

**Holistic approach to investment**



The coronavirus outbreak laid bare some of the imbalances that policymakers created over the last decade



Governments and central banks have flooded the financial system with liquidity to facilitate price discovery and market clearing



Further misallocation of capital likely to weigh on productivity and sustainable economic growth



A combination of large scale fiscal expansion and zero interest rate policy is likely to change the inflation outlook



Not all companies will benefit from fiscal largesse to the same extent and solvency risk remains high

**Elevated economic uncertainty and financial market distortions merit a highly selective and opportunistic investment approach**

## Learning Objectives:

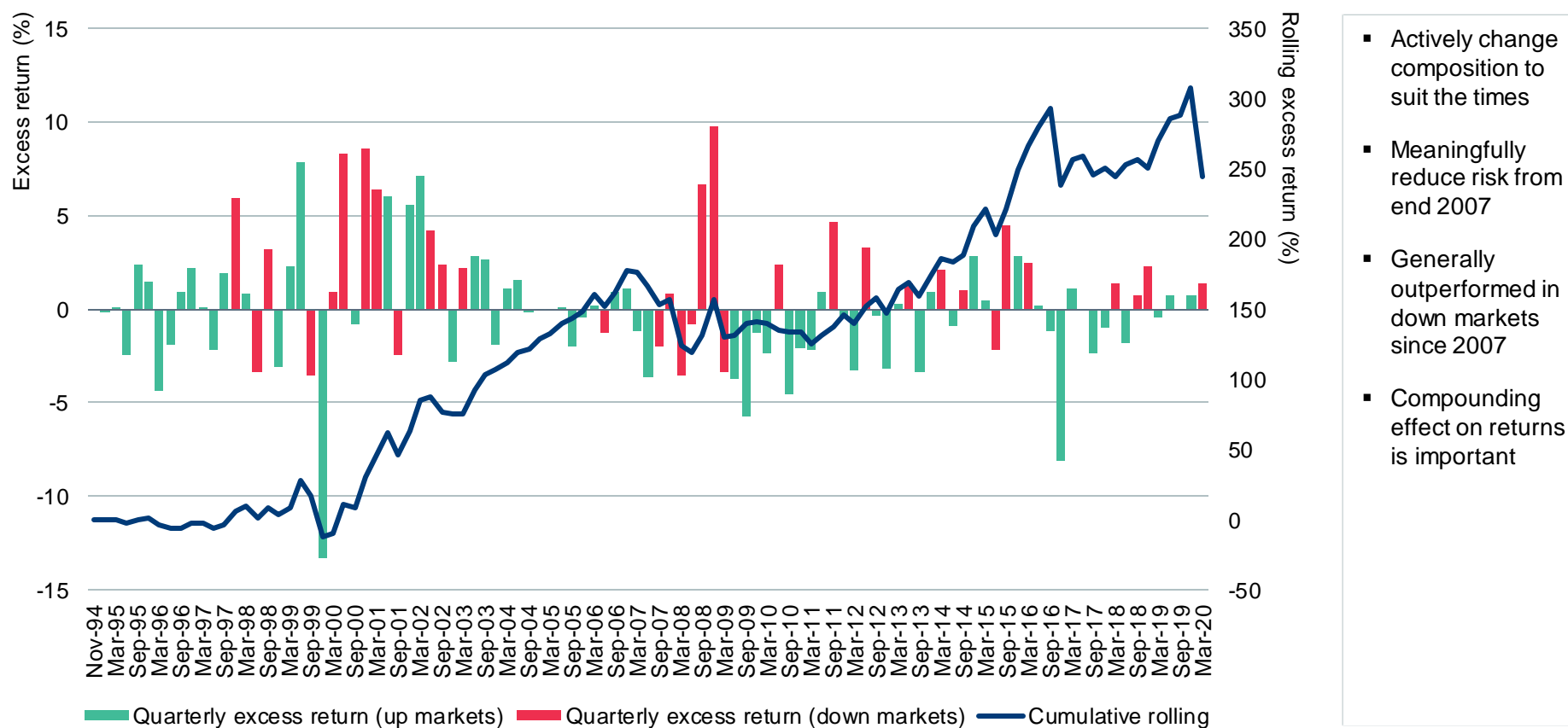
1. Understanding how behavioural biases affect investors and the disciplines to overcome them
2. Explain why after BREXIT and dividend cuts the UK looks an attractive investment opportunity
3. Understanding the role of income investing in the current economic environment

# Equity income can provide an asymmetric return profile

BNY Mellon UK Income Fund

## BNY Mellon UK Income Fund

Quarterly excess return vs. FTSE All-Share<sup>1</sup> with cumulative line in GBP (before fees) since inception<sup>2</sup>, ending 31 March 2020



Notes:

<sup>1</sup> The FTSE All-Share Index is used as a performance benchmark for this fund. The fund does not aim to replicate either the composition or the performance of the comparative index.

<sup>2</sup> Inception date: 1 November 1994.

Source: Lipper, midday prices, fund performance calculated as total return, income reinvested, net of 0.75% annual management charges in GBP, 31 March 2020.

Prior to 10 June 2019, the BNY Mellon UK Income Fund was known as the Newton UK Income Fund..

**A focus on income has  
protected capital in down markets**

# **BNY MELLON UK INCOME FUND**



# Process: Newton UK Equity Income Strategy

Fishing in statistically attractive pools

Aim for 110% of FTSE All-Share yield. Every stock must make a contribution. No stock can yield 0.

## Alone easy

### 1. Dividend yield criteria

- Compound a higher yield
- Contrarian



### 2. Sustainability of dividends

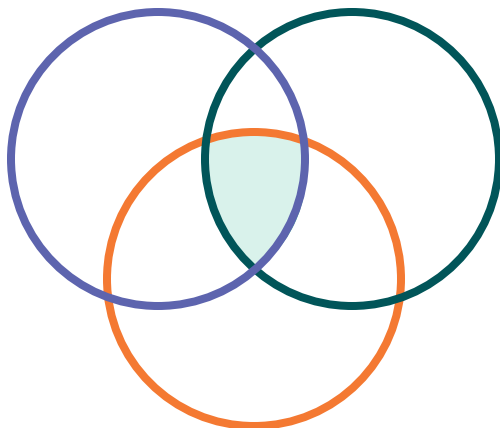
- Statistically attractive business models
- Avoid FOMO, barbell
- Ability to suffer



### 3. Valuation

- Patience
- Margin for error
- Contrarian

## Together rare



## Buckets of controversy

### TROUBLED COMPOUNDING MACHINES

- Temporary problems mistaken for permanent
- Power of compounding underappreciated

### EX-GROWTH CASH GENERATORS

- Market believes business is structurally broken
- Greater longevity to returns

### PROFITABILITY TRANSFORMATION

- Short termism
- Fear of cyclical pain
- Mean reversion

### CAPITAL INTENSITY

- Market boredom / 'exciting' alternatives
- Power of compounding underappreciated

### SPECIAL SITUATIONS

- Spin-offs
- Hidden assets

# Newton Equity Income team

## Global Equity Income

### Global Thematic Insights

#### Economics and Policy



#### People



#### Innovation



**17** years' investment experience

**13** years at Newton



Ilga Haubelt



Robert Hay



Paul Flood



Jon Bell



Zoe Kan



Emma Mogford



Nick Pope

### Portfolio Managers

21 years' investment experience  
16 years at Newton

#### Equity Income

#### Equity Opportunities

#### Real Return

#### Multi-Asset

#### Fixed Income

### Global Research

**14** years' investment experience **6** years at Newton



Duncan Bulgin  
Head of Research



Tom Atkinson



Stephen Benson



Amy Chamberlain



Vivek Gautam



Emily Heaven



Robbie Henderson



Freeman Le Page<sup>1</sup>



Tim Lucas



Jonathan McMullan



Michal Plotkowiak



Mathieu Poitrat  
Rachmaninoff



Laura Sheehan



Maria Toneva

#### Equity



Scott Freedman



Martin Chambers



Ashwin Palta



Jeevan Dhoot

#### Credit



Ian Burger  
Head of Responsible Investment



Lloyd McAllister  
Responsible Investment



Rebecca White



Andrew Parry  
Head of Sustainable investment



David King



Paul Byrne



Edward Geall



Sabrina Rodrigues



Jeremy Stuber



Joo Hee Lee



Brendan Mulhern

#### Thematic, Quant & Strategy

Note: <sup>1</sup> Alternatives investment analyst.

Source: Newton, 7 May 2020.

Years' investment experience and tenure at Newton are team average numbers as at 7 May 2020.  
Total number of investment personnel = 62.

**Single investment team,  
interactive and collaborative approach**

# Capturing the profound significance of dividends

BNY Mellon UK Income Fund

## DIVIDENDS

- Compound a higher yield than the market
- Every stock makes a 'meaningful contribution'

## DISCIPLINE

- Focus on statistically attractive areas
- Checklist for every holding

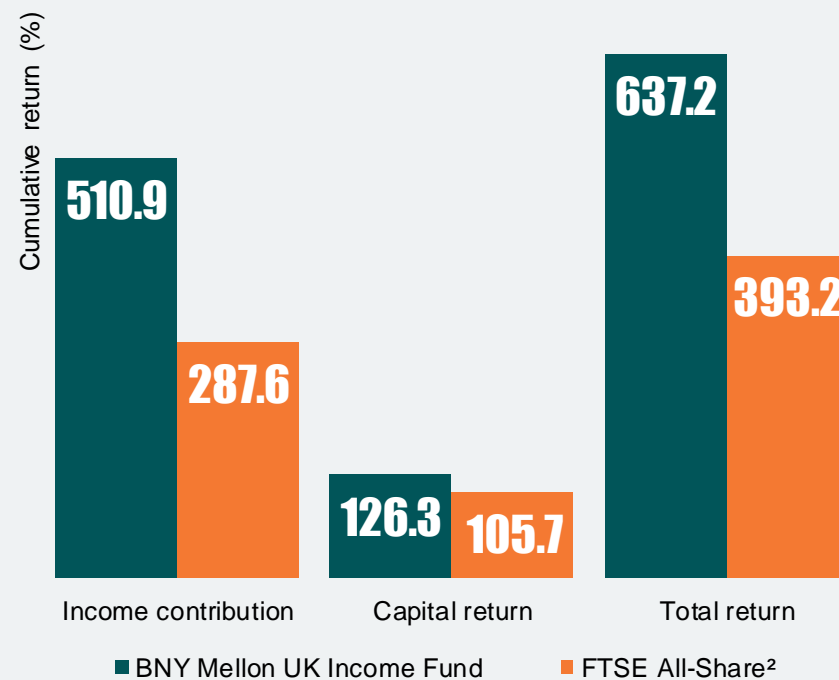
## DOWNSIDE

- Dividends backed by sustainable cashflows
- Avoid structurally challenged industries

## DECISIVE

- Concentrated portfolio of 40–60 stocks
- Low turnover consistent with 3–5yr time horizon

### BNY Mellon UK Income Fund (Since inception<sup>1</sup> to 31 March 2020)



**Significant contribution from income**

Notes:

<sup>1</sup> Inception date: 1 November 1994. <sup>2</sup> The FTSE All-Share Index is used as a performance benchmark for this fund. The fund does not aim to replicate either the composition or the performance of the comparative index.

**Source:** Lipper, midday prices, fund performance calculated as total return, income reinvested, net of 0.75% annual management charges in GBP, 31 March 2020. Prior to 10 June 2019, the BNY Mellon UK Income Fund was known as the Newton UK Income Fund.

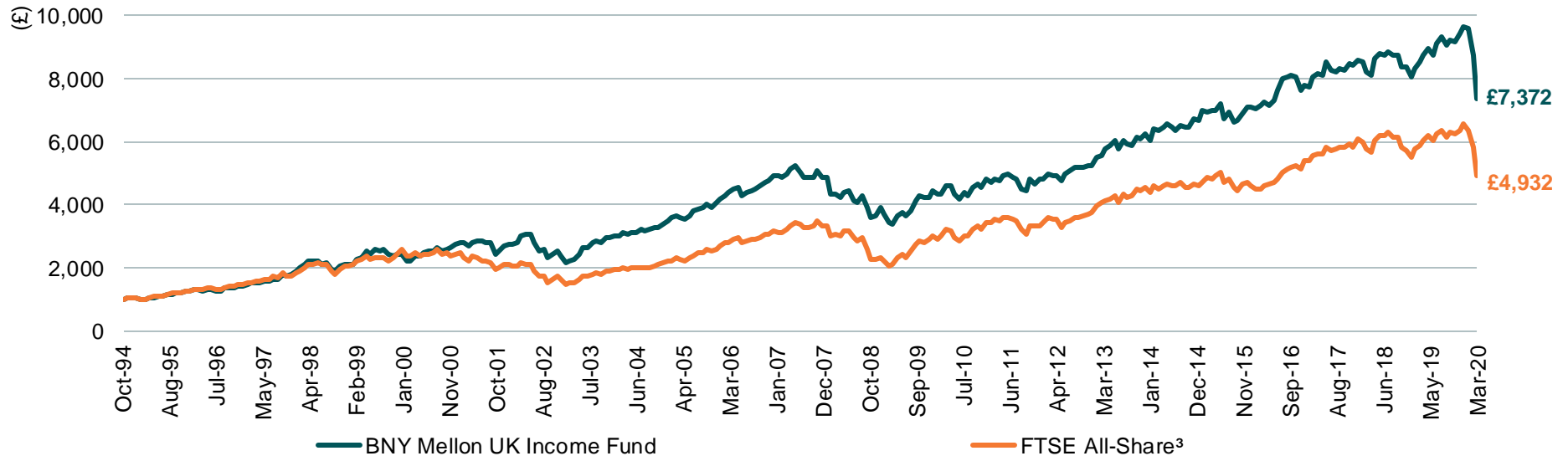
# APPENDIX

# Performance, as at 31 March 2020

## BNY Mellon UK Income Fund

%	1 year	3 years (annualised)	5 years (annualised)	Since inception (annualised) <sup>1</sup>	Since fund manager inception <sup>2</sup>
<b>BNY Mellon UK Income Inst W Acc</b>	<b>-15.75</b>	<b>-3.41</b>	<b>1.01</b>	<b>8.14</b>	<b>-5.64</b>
FTSE All-Share	-18.45	-4.24	0.57	6.45	-6.90
IA UK Equity Income	-20.89	-6.34	-1.39	6.49	-9.73
Quartile	1	1	1	1	1
Rank	18/86	11/80	9/75	2/20	9/84

### Value of £1,000 invested at launch in 1994 to 31 March 2020



Notes:

<sup>1</sup> Inception date: 1 October 1994. <sup>2</sup> Since Emma Mogford took over the fund on 30 November 2017.

<sup>3</sup> The FTSE All-Share Index is used as a performance benchmark for this fund. The fund does not aim to replicate either the composition or the performance of the comparative index.

Source: Lipper, midday prices, fund performance calculated as total return, income reinvested, net of 0.75% annual management charges, in GBP, 31 March 2020.

Prior to 10 June 2019, the BNY Mellon UK Income Fund was known as the Newton UK Income Fund.

**Delivering income  
for clients since 1994**

# Portfolio characteristics: repeating pattern of opportunity

Newton UK Equity Income Strategy

Portfolio weight	TROUBLED COMPOUNDING MACHINES	EX-GROWTH CASH GENERATORS	PROFITABILITY TRANSFORMATION	CAPITAL INTENSITY	SPECIAL SITUATIONS
>5%	RELX	Smiths			
4%	Diageo Informa Unilever	British American Tobacco GlaxoSmithKline Imperial Brands	BAE Systems Royal Dutch Shell BP		
3%				National Grid	Prudential
2%	Compass Sage St James's Place	Admiral Novartis Roche	Anglo American Aviva Royal Bank of Scotland Ferguson Total Lloyds Banking	Eversource Energy Smurfit Kappa Vodafone Zurich Insurance National Express	
1%	Moneysupermarket.com Philip Morris	Cisco Systems	Legal & General Persimmon QinetiQ Barratt Developments	Deutsche Post Signature Aviation	M&G Travis Perkins TP ICAP
	25%	24%	28%	15%	6%

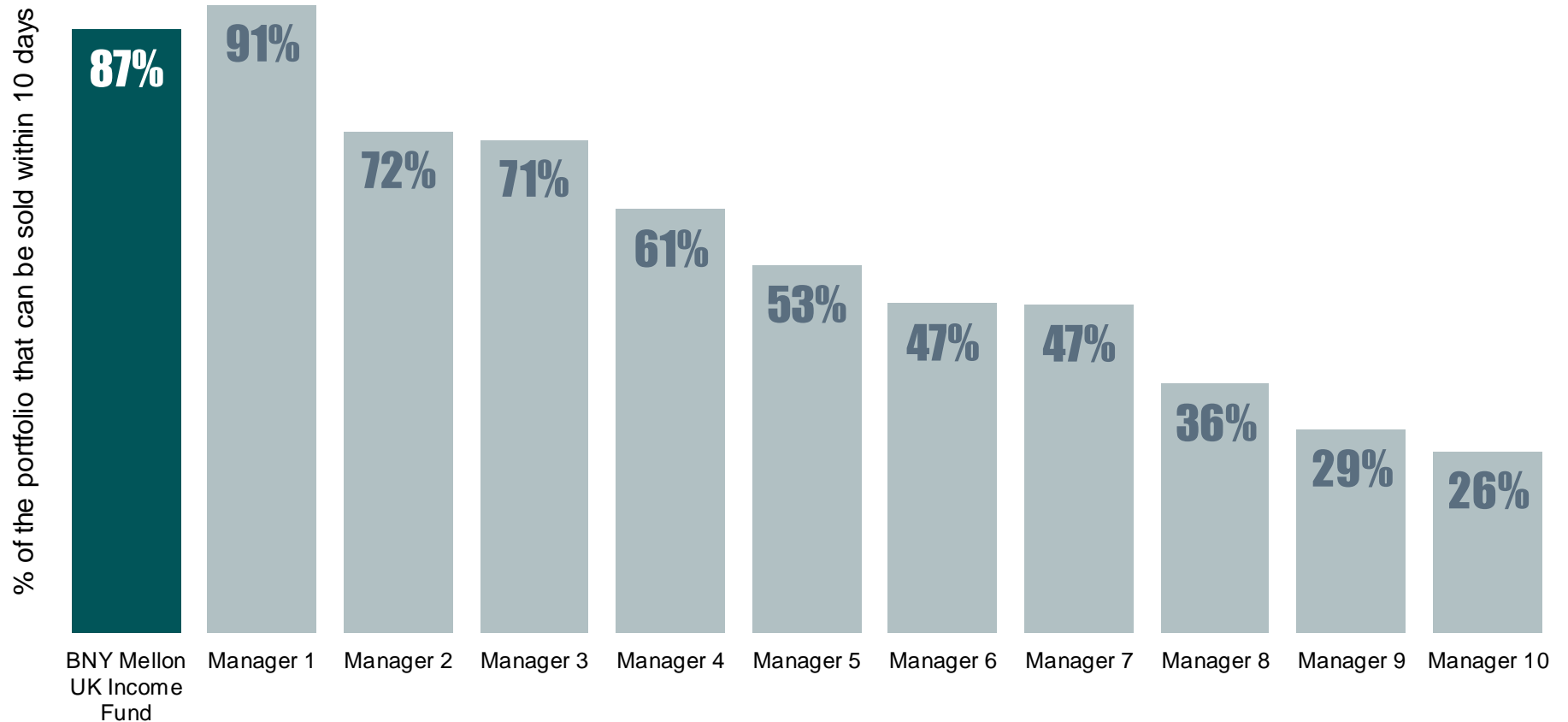
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Source: Newton, 31 March 2020. BNY Mellon UK Income Fund is a representative portfolio and adheres to the same investment approach as Newton UK Equity Income Strategy. Prior to 10 June 2019, the BNY Mellon UK Income Fund was known as the Newton UK Income Fund.

**42 high conviction holdings**

## Fund liquidity

Portfolio is more liquid than most, compared to the 10 largest funds in the IA UK Equity Income sector



- The **BNY Mellon UK Income Fund** is generally more focussed on larger companies in the FTSE 100 and FTSE 250 with a market cap larger than £1bn. **87% of the fund** could be sold in 10 days, with just 4% taking more than 30 days.

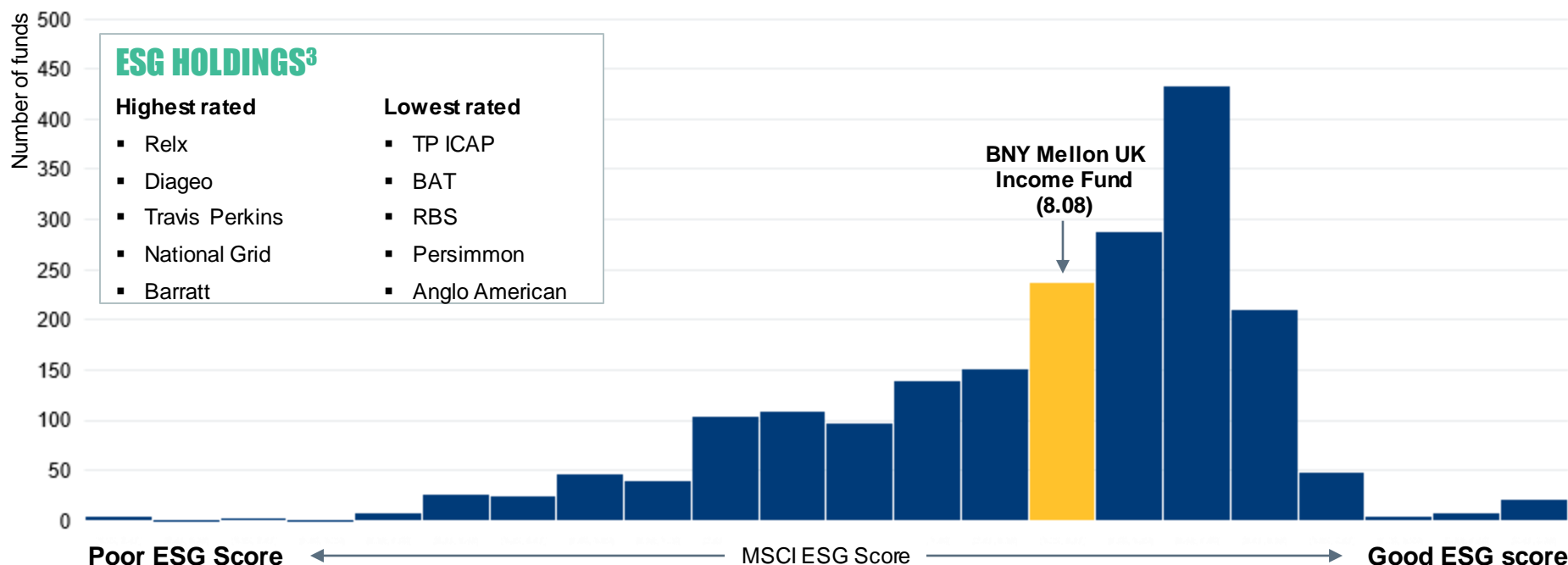
Note: Some of these managers will have large institutional mandates in addition to the main fund which means if they need to sell it could take longer than this analysis suggests. The analysis assumes the manager sells at a rate of 20% of the shares traded in the market in an average day (based on last 6 months) on the listed exchanges. This ignores some of the large block trades which occur off market which might allow the manager to sell positions faster. Data gathered on 31 August but holdings based on last reported portfolio which are potentially quite out of date – oldest is March 2019.

Source: Newton, 31 October 2019.

Prior to 10 June 2019, the BNY Mellon UK Income Fund was known as the Newton UK Income Fund.

# Overall MSCI ESG<sup>1</sup> quality rating is in 55<sup>th</sup> percentile relative to peers and is higher than the index

## Distribution of MSCI ESG quality scores<sup>2</sup> in Equity UK & Equity UK Income peer group



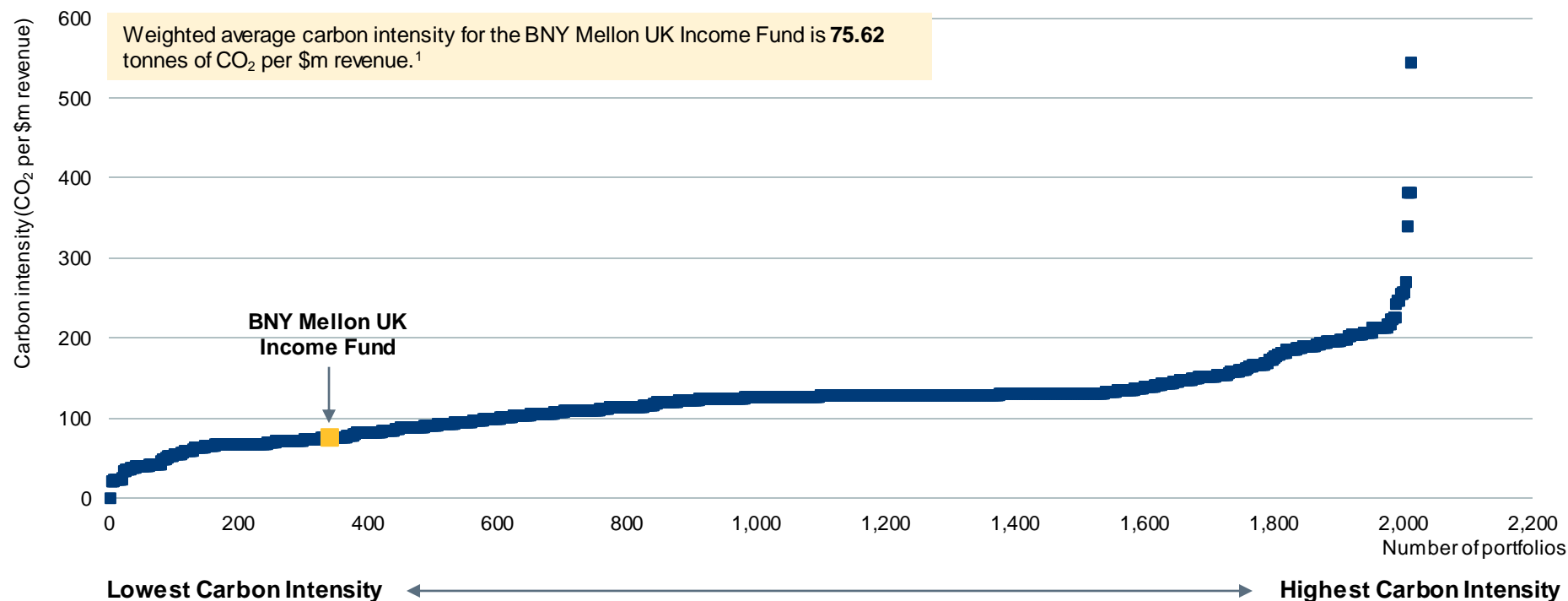
Notes: <sup>1</sup> Environmental, Social and Governance; <sup>2</sup> The overall Fund ESG Quality Score measures the ability of underlying holdings to manage key medium- to long-term risks and opportunities arising from environmental, social, and governance factors; <sup>3</sup> M&G is currently unrated.

MSCI Fund Universe peer group: Equity UK & Equity UK Income. Number of funds in peer group: 2013 (this figure includes multiple share classes run under the same strategy).

**Source:** MSCI ESG Manager. Data accessed January 2020. The data presented is based on the latest available holdings information for each fund in the MSCI Fund Universe database. ©2019 MSCI ESG Research LLC. Reproduced by permission. MSCI ESG Research LLC's ('MSCI ESG') Fund Metrics products (the 'Information') provide environmental, social and governance data with respect to underlying securities within more than 21,000 Mutual Funds and ETFs globally across multiple asset classes. MSCI ESG is a Registered Investment Adviser under the Investment Advisers Act of 1940. MSCI ESG materials have not been submitted to, nor received approval from, the US SEC or any other regulatory body. None of the Information constitutes an offer to buy or sell, or a promotion or recommendation of, any security, financial instrument or product or trading strategy, nor should it be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. None of the Information can be used to determine which securities to buy or sell or when to buy or sell them. The Information is provided 'as is' and the user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. Although Newton Investment Management's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. Prior to 10 June 2019, the BNY Mellon UK Income Fund was known as the Newton UK Income Fund.



# The carbon intensity of BNY Mellon UK Income Fund is markedly lower than peers



Notes: <sup>1</sup> The Weighted Average Carbon Intensity measures a fund's exposure to carbon intensive companies. The figure is sum of security weight (normalized) multiplied by the security Carbon Intensity. MSCI calculates weighted average carbon intensity as scope 1+2 emissions/\$m sales weighted by portfolio weight.

MSCI Fund Universe peer group: Equity UK & Equity UK Income. Number of funds in peer group: 2013 (this figure includes multiple share classes run under the same strategy). Funds with carbon intensity over 600 CO<sub>2</sub> per \$m revenue have been excluded.

**Source:** MSCI ESG Manager. Data accessed December 2019. The data presented is based on the latest available holdings information for each fund in the MSCI Fund Universe database. ©2019 MSCI ESG Research LLC. Reproduced by permission. MSCI ESG Research LLC's ('MSCI ESG') Fund Metrics products (the 'Information') provide environmental, social and governance data with respect to underlying securities within more than 21,000 Mutual Funds and ETFs globally across multiple asset classes. MSCI ESG is a Registered Investment Adviser under the Investment Advisers Act of 1940. MSCI ESG materials have not been submitted to, nor received approval from, the US SEC or any other regulatory body. None of the Information constitutes an offer to buy or sell, or a promotion or recommendation of, any security, financial instrument or product or trading strategy, nor should it be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. None of the Information can be used to determine which securities to buy or sell or when to buy or sell them. The Information is provided 'as is' and the user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. Although Newton Investment Management's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. Prior to 10 June 2019, the BNY Mellon UK Income Fund was known as the Newton UK Income Fund.

# BNY Mellon UK Income Fund

## Investment objective, annual performance and key risks

### Investment objective and performance benchmark

**Objective:** To achieve income over an annual period together with capital growth over the long term (5 years or more).

**Benchmark:** The Fund will measure its performance against the FTSE All-Share TR 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.

### Performance

12-month returns (%)	Apr-15 to Apr-16	Apr-16 to Apr-17	Apr-17 to Apr-18	Apr-18 to Apr-19	Apr-19 to Apr-20
BNY Mellon UK Income Fund	2.48	13.90	5.89	4.22	-11.27
Benchmark	-5.69	20.14	8.16	2.62	-16.68
Calendar year returns (%)	2015	2016	2017	2018	2019
BNY Mellon UK Income Fund	6.81	9.33	10.56	-6.70	20.34
Benchmark	0.98	16.75	13.10	-9.47	19.17

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

Prior to 10 June 2019, the BNY Mellon UK Income Fund was known as the Newton UK Income Fund.

**Past performance is not a guide to future performance.**

**The value of investments can fall. Investors may not get back the amount invested. Income from investments may vary and is not guaranteed.**

### Key investment risks

- **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.
- **Geographic Concentration Risk:** Where the Fund invests significantly in a single market, this may have a material impact on 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.
- **Emerging Markets Risk:** Emerging Markets have additional risks due to less-developed market practices.
- **Concentration Risk:** A fall in the value of a single investment may have a significant impact on the value of the Fund because it typically invests in a limited number of investments.
- **Charges to Capital:** The Fund takes its charges from the capital of the Fund. Investors should be aware that this has the effect of lowering the capital value of your investment and limiting the potential for future capital growth. On redemption, you may not receive back the full amount you initially invested.
- **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.

# Important information

**Fund performance shown within this document excludes the impact of an initial charge, which can be material on the performance of your investment. Further information is available upon request.**

**For Professional Clients only. This is a financial promotion and is not investment advice. For a full list of risks applicable to these funds, please refer to the Prospectus or other offering documents. Before subscribing, investors should read the most recent Prospectus and KIID for each fund in which they want to invest. Go to [www.bnymellonim.co.uk](http://www.bnymellonim.co.uk). The Prospectus and KIID are available in English and in an official language of the jurisdictions in which the Fund is registered for public sale.**

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

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and its subsidiaries.

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