

**SHINING A LIGHT ON THE.....
BNY Mellon Absolute Return Equity Fund**

AT A GLANCE

Investment Objective	
Aims to provide a positive absolute return in all market conditions. The Fund aims to achieve its objective through discretionary investment management and may employ a range of hedging techniques. The Fund will also aim to achieve positive absolute returns over a rolling twelve-month period. The performance of the Fund will be measured against the cash benchmark, GBP LIBOR.	

Inception Date	31/01/2011
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F00000LYWW

Management	
Manager Name	Start Date
Specialist Equities Team	31/01/2011

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	-
Large	-
Medium	-
Small	-
Micro	-

Top 10 Holdings		
Total number of holdings	54	
Assets in Top 10 Holdings	36.86%	
Name	Sector	% of Assets
ILF GBP Liquidity 2	-	11.68%
Grifols SA ADR	-	5.56%
Uk Tsy Bil 0% 02/26/18	-	3.06%
Asml Holding Trs B929f46	-	2.83%
Vivendi Sa Trs 4834777	-	2.69%
Schroders Plc Trs 239581	-	2.65%
Banco Santand Trs 5705946	-	2.58%
Siltronic Ag Trs Byy5978	-	2.21%
Swedbank Ab FRN	-	1.84%
Royal Dutch S Trs B03mlx2	-	1.74%

Volatility Measurements	
3-Yr Std Dev (volatility)	4.58%
3-Yr Mean Return (average)	1.51%

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FUND PERFORMANCE

Performance from 1 January 2013 to 28 February 2018.

	2013	2014	2015	2016	2017	2018
BNY Mellon Absolute Return Equity Fund S Class	7.97%	8.14%	3.47%	3.51%	2.14%	0.93%
Vanguard Global Bond Index	-0.13%	1.57%	1.25%	-0.17%	2.00%	-1.03%

Performance over 1 year, 3 years, 5 years and since launch:

	1 year	3 years (p.a.)	5 years (p.a.)	Since launch (p.a.)
BNY Mellon Absolute Return Equity Fund S Class	4.13%	2.14%	2.29%	3.13%
Vanguard Global Bond Index	0.53%	1.41%	2.65%	3.53%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

UPDATE....

The fund is a long/short equity fund which aims to achieve a cash plus 6% return over five years before charges. An equity **long-short** strategy is an investing strategy that involves taking **long** positions in stocks that are expected to increase in value and **short** positions in stocks that are expected to decrease in value.

The managers explained that the returns were muted in 2015 and 2106 because there were few opportunities, but this has started to change. The team aim to focus on the risks they want and minimise the risks that they don't. They call trades within the fund "pair trades" and it is how this is matched that ultimately delivers the returns. They used an example of a long position in a Spanish Bank and the three different options they can use:

1. Pair 1 short STOXX Europe 600 Index – this approach exposes risk to the bank, Spanish country risk and bank factor risk
2. Pair 2 short STOXX Europe Banks Sector – this approach exposes risk to the bank and Spanish country risk
3. Pair 3 short Spanish Banks B & C – this approach exposes risk to the bank vs Spanish Banks B & C

By taking this approach it means they can take the risk they want to take for the fund.

The team is 14 strong with 8 managers pulling together the portfolio to deliver the returns. Each manager runs 10 – 15 pair trades, and the fund typically holds between 80 to 120 pairs. The position sizes and exposure depend on risk, liquidity and market environment.

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On the long side the fund is currently positioned towards self help stories, growth (innovation, government policy driven growth etc) and specific value / relative value opportunities. On the short side this includes bond proxy stocks and companies facing adverse structural change. Tactically they are seeking out anomalies exposed by market volatility and maintaining tight hedging positions.

In summary, this fund targets a return of 6% plus cash and like other funds in this sector it hasn't achieved this. The question we have is this: - is the expectation for these funds wrong and should the focus be on lower volatility and delivering positive returns above cash over 3-year time frame? The search for the holy grail continues.

The source of information in this note has been provided by Insight and is correct as at March 2018. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. We would also recommend that you receive advice before following up on any decision.