

BNY Mellon AMT-Free Municipal Bond Fund

MANAGER COMMENTARY | Q2 2025

Class A **DMUAX** Class I **DMBIX**

MARKET REVIEW

The municipal bond market experienced elevated volatility relative to Treasuries in April, as a tariff-induced bond selloff coincided with a seasonally weak period for supply and demand. May and June conditions improved as municipal bond performance recovered in line with Treasuries, supported by seasonally strong demand. For the second quarter, municipal bonds overall underperformed other fixed income markets, in part due to record-setting new issue supply and muted mutual fund demand. During 2Q25, total issuance topped \$160billion (bn), up 13% compared to 2Q24. Year-to-date taxable municipal issuance held steady at approximately \$18bn compared to the first quarters of last year. Demand from retail investors was mixed as municipal open-ended mutual funds experienced \$2.6bn in net outflows (per Investment Company Institute (ICI)) compared to ETFs which attracted \$8.8bn of inflows during 2Q25.

“Elevated financial market volatility is likely to continue amid ongoing uncertainty around tariffs, geopolitical alliances, and overall policy change prospects tied to federal funding, among others.”

PERFORMANCE SUMMARY

For the quarter ended June 30, 2025, the Fund's Class I shares returned -0.77%, excluding sales charges. In comparison, the Fund's unmanaged benchmark, the Bloomberg U.S. Municipal Bond Index, returned -0.12% for the same period.

Average Annual Total Returns (6/30/25)

Share Class / Inception Date	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Class A (NAV) 03/31/03	-0.75%	-1.53%	-0.03%	1.22%	0.26%	1.90%
Class A (4.50% max. load)	-5.23%	-5.97%	-4.54%	0.68%	-0.65%	1.43%
Class I (NAV) 12/15/08	-0.77%	-1.41%	0.15%	2.45%	0.52%	2.15%
Bloomberg U.S. Municipal Bond Index	-0.12%	-0.35%	1.11%	2.50%	0.51%	2.20%

The performance data quoted represents past performance, which is no guarantee of future results. Share price and investment return fluctuate, and an investor's shares may be worth more or less than original cost upon redemption. Current performance may be lower or higher than the performance quoted. Data assumes reinvestment of dividends and capital gains, if any. Performance for periods less than 1 year is not annualized. Go to [bny.com/investments](https://www.bny.com/investments) for the fund's most recent month-end returns.

Total Expenses (6/30/25)

Share Class	Gross ¹	Net ²
Class A	0.68%	0.68%
Class I	0.43%	0.43%

¹Gross expenses is the total annual operating expense ratio for the fund before any fee waivers or expense reimbursements. ²Net Expenses is the total annual operating expense ratio for the fund, after any applicable fee waivers or expense reimbursements. The Net Expenses is the actual fund expense ratio applicable to investors. The net expense ratios reflect a contractual expense reduction agreement through 12/31/2025, without which the performance would have been lower. Not all classes of shares may be available to all investors or through all broker-dealer platforms.

MARKET REVIEW (continued)

During the second quarter, the AAA municipal yield curve continued to steepen as short-term yields decreased, while intermediate and longer maturity bond yields increased. Municipal AAA yields decreased 5 to 15 basis points (bps) for two-to-five maturities, while yields increased by 1 to 26 bps for ten- to thirty-year maturities. The 2y and 30y AAA municipal curve steepened 31bps in 2Q25 to 188bps. Similarly, US treasury curve steepened, with yields from two- to five-year maturities decreasing 13 to 16 bps, while yields from ten-to-thirty years increased 6 to 25bps. The Muni-Treasury ratio, a key gauge of relative value, cheapened slightly during 2Q25 across all maturity tenors. The 10Y AAA Muni-to-Treasury ratio increased slightly to 76%, while the 30Y ratio cheapened slightly to 95% from 92%, still looking the cheapest compared to historical levels from the past few years. During the recent quarter, longer duration municipal bonds underperformed their shorter counterparts, reflected in the Bloomberg Municipal Long Index return of -1.94%, compared to the Bloomberg Municipal 3-year and 10-year Index returns of +1.05% and +0.78% respectively.

From a quality perspective during 2Q25, the lower rated segments delivered relatively weaker performance, reflected by the Bloomberg Municipal BBB & A Index return of -0.64% and -0.24% respectively, underperforming the Bloomberg Municipal AAA & AA Index returns of -0.09% and -0.04% respectively. From a sector perspective, the revenue sector underperformed general obligation (GO) bonds. Tobacco, housing, and industrials sub-sectors remained to be the outperformers during the quarter, while hospital, education, and water & sewer sub-sectors were generally weaker performers. Credit spreads continued to widen during 2Q25 as rate volatility, macro-economic, and tax policy uncertainty was heightened. The Bloomberg Municipal High-yield Index returned -1.14% during 2Q25, underperforming the investment-grade Bloomberg Municipal index, which returned -0.12%. The Bloomberg Taxable Municipal Index returned +0.81% during the second quarter, compared to the Bloomberg US Treasury Index return of +0.85% and the Bloomberg U.S. Corporate Index return of +1.82%.

Municipal credit conditions remain solid, supported by very high reserves and cash balances that have accumulated over the last few years. A number of executive actions taken by the Trump Administration, if allowed to stand, could have negative credit implications across large segments of public finance. Tariffs, federal job cuts, and the mass deportation of illegal immigrants are likely to slow economic growth, which could have a negative impact on income and sales tax receipts. At the same time, cuts in federal spending in areas such as Medicaid, “green” infrastructure initiatives, and federal disaster relief could pressure state/local budgets.

The US economy has moved into a ‘falling’ growth regime led by recent tariff policy uncertainty which should drive a softer economic backdrop for 2H25. Inflation data over recent months has re-affirmed the slow, but gradual disinflation regime that we have been in for several years. We expect the Fed to remain patient and resume easing by year-end in response to moderating growth and a weaker labor market. Muni yields should follow Treasuries with the prospect of a further steepening yield curve led by the pull of expected Fed rate cuts on the short-end.

PERFORMANCE REVIEW

The Fund’s duration and curve positioning were the main detractors, with overweight exposures to long term maturities negatively impacting performance amidst rising yields during the quarter. Security and sector allocation had a limited impact on performance during the quarter.

MARKET OUTLOOK

Elevated financial market volatility is likely to continue amid ongoing uncertainty around tariffs, geopolitical alliances, and overall policy change prospects tied to federal funding, among others. We remain vigilant with maintaining well diversified, high-quality portfolios consisting of solid fundamental credits that we believe are well-positioned to withstand pressures from potential policy changes in Washington. We also would view any market dislocation stemming from federal policy uncertainty as a potential buying opportunity.

Uncertain changes to federal policy could drive heightened volatility in credit conditions as we move through 2025. We believe a more cautious approach to credit selection would be prudent, with an increased emphasis on balance sheet strength, liquidity and operating flexibility. Essential service sectors, including public power and water/sewer, remain relatively safe investments due to their predictable and stable cash flows through economic cycles. Healthcare is facing potential headwinds stemming from potential cuts to Medicaid, which could have an outsized negative impact on smaller, rural hospitals. Threatened cuts to federal grants and potential changes to endowment tax rates are driving negative headlines among many of the higher rated colleges and universities, yet we believe these institutions have substantial resources to withstand the cuts and would view any spread widening as a buying opportunity. We continue to see value in the transportation sectors although airports with heavy reliance on international travel could see some softening in demand.

Our duration posture is targeted neutral to modestly long versus respective benchmarks. The recent backup in municipal yields along with yield curve steepening has made the current environment more attractive for modest duration extension. The prospect for transitory impacts of higher inflation from fiscal and tariff policy from the new administration along with the Fed's dovish bias may keep the slope of the curve elevated and rangebound in the near term.

Investors should consider the investment objectives, risks, charges and expenses of a mutual fund carefully before investing. To obtain a prospectus, or a summary prospectus, if available, that contains this and other information about a fund, contact your financial professional or visit bny.com/investments. Read the prospectus carefully before investing. Past performance is no guarantee of future results.

Risks

Bonds are subject to interest-rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines.

Municipal income may be subject to state and local taxes. Some income may be subject to the federal alternative minimum tax for certain investors. **U.S. Treasuries** while the U.S. Government guarantees the timely payment of principal and interest on its securities, portfolios that invest in such securities are not guaranteed and will fluctuate in value. Capital gains, if any, are taxable. Portfolio composition is subject to change at any time.

Asset allocation and diversification cannot ensure a profit or protect against loss in declining markets.

The **Bloomberg US Municipal Bond Index** is a widely accepted, unmanaged total return performance benchmark for the long-term, investment-grade, tax-exempt bond market. Reflects investments of dividends and, where applicable, capital gain distributions. The **Bloomberg US Treasury Index** measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. The Bloomberg U.S. Corporate Index measures the performance of the investment-grade, fixed-rate, taxable corporate bond market within the United States. The **Bloomberg Municipal Managed Money Long Index** is a rules-based, market-value-weighted index that measures the performance of publicly traded, USD-denominated, long-term, tax-exempt municipal bonds, including general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. The **Bloomberg 3-Year Municipal Bond Index** is a benchmark that tracks the performance of a specific segment of the municipal bond market. It includes fixed-rate, investment-grade, tax-exempt bonds with remaining maturities between two and four years. The **Bloomberg 1-10 Year Municipal Bond Index** tracks the performance of investment-

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grade municipal bonds with maturities between 1 and 10 years. **Bloomberg Municipal Bond AAA, AA, A and BBB** Indices are subsets of the Bloomberg Barclays Municipal Bond Index. The **Bloomberg Municipal High Yield Index** is a benchmark that tracks the performance of the non-investment grade, tax-exempt municipal bond market in the United States. It includes bonds that are rated below investment grade (Ba1 or lower) or are unrated and are U.S. dollar-denominated and fixed-rate. The **Bloomberg Municipal Taxable Bonds Index** measures the performance of the U.S. municipal taxable investment-grade bond market. It includes bonds issued by state and local governments that are subject to federal income tax. Investors cannot invest directly in any index.

A **yield curve** is a line that plots the yields or interest rates of bonds that have equal credit quality but different maturity dates. The slope of the yield curve predicts the direction of interest rates and the economic expansion or contraction that could result.

Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates. A bond's duration is easily confused with its term or time to maturity because they are both measured in years. However, a bond's term is a linear measure of the years until repayment of principal is due; it does not change with the interest rate environment. Duration, on the other hand is non-linear and accelerates as time to maturity lessens. **Dovish** describes a monetary policy stance that favors lower interest rates to stimulate economic growth and potentially increase employment, even if it means accepting a higher level of inflation. The **Muni/Treasury ratio** is a measure that compares the yield of municipal bonds to that of U.S. Treasury bonds. It's a key metric for assessing the relative value of municipal bonds, particularly for investors considering the tax benefits of munis.

Definitions

Q is quarter. **NAV** is Net Asset Value. **YTD** is Year to Date. **FDIC** is Federal Deposit Insurance Corp.

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