

# BNY Mellon Small Cap Value Fund

MANAGER COMMENTARY | Q2 2025

CLASS A RUDAX

CLASS C BOSCX

CLASS I STSVX

## MARKET REVIEW

Equity markets were generally higher across developed and emerging markets as the US retreated on its harshest tariff threats and signs the Federal Reserve (Fed) may begin cutting rates as inflation stabilized. Markets largely looked past geopolitical uncertainty in June as Israel launched surprise airstrikes on Iran's nuclear sites, prompting retaliatory attacks and US strikes in support of Israel before a fragile ceasefire contained further escalation. The S&P 500® Index increased 10.94% for the quarter. Within the index, 8 of 11 Global Industry Classification Standard (GICS) equity sectors finished in positive territory. The strongest performers were information technology and communication services. Growth stocks outperformed value stocks, while large-cap outperformed small-cap. Among other major equity benchmarks, the MSCI EAFE Index, a measure of developed markets excluding the US and Canada, was higher by 11.78%. The MSCI Emerging Markets Index was higher by 11.99%.

In the US, equity market performance was higher in the second quarter of 2025 with the Dow Jones Industrial Average advancing by 5.46% and the Nasdaq 100 advancing by 17.86%. US fixed income markets were also higher for the quarter. First quarter GDP contracted by 0.3%, the first decline since 2022, due to a surge in pre-tariff imports. Despite this, the labor market remained resilient, with job growth moderating but consistently above expectations. Inflation appeared contained, with core Personal Consumption Expenditures (PCE), the Fed's preferred measure, easing from 2.7% to 2.5% in May before rising slightly to 2.8% in June, still below forecasts. The Fed took no further rate actions in the quarter, although Vice Chair Michelle Bowman signaled openness to rate cuts as early as July amid softening job data and subdued inflationary impact from tariffs. Consumer sentiment rebounded from historic lows, while political developments—most notably President Trump's evolving tariff strategy and the advancement of the "One Big Beautiful Bill"—added fiscal and policy uncertainty heading into the second half of the year.

In developed markets, equity markets were broadly higher. In the Eurozone, the European Central Bank (ECB) cut rates by 25 basis points (bps) twice as inflation continued to moderate. The most recent inflation reading (May) came in at 1.9% relative to 2.2% in April and below the ECB's long-term target of 2%. First quarter GDP grew at an annualized rate of 1.2%, effectively flat relative to the prior quarter. Despite growth resilience, the European Commission lowered its full-year forecast due to US-EU trade tensions. The UK had a first quarter GDP surge of 0.7%, the fastest in the Group of Seven (G7), which was partly driven by front-loaded activity ahead of new tariffs and tax changes. The Bank of England (BOE) cut rates by 25 bps in May before pausing in June amid lingering inflation concerns. In Japan, inflation spiked early in the quarter due to food and tariff-driven import costs but later moderated to 1.9%. The Bank of Japan (BOJ) left policy unchanged across both its meetings and announced a slower pace of bond purchase tapering beginning in 2026, aiming to stabilize bond market volatility.

"In our view, a cautiously optimistic outlook prevails, with US equities and selective international markets potentially offering opportunities amidst a volatile macro environment"

## QUARTERLY PERFORMANCE

BNY Mellon Small Cap Value Fund outperformed its benchmark, the Russell 2000 Value Index, during the second quarter of 2025 (based on gross-of-fees performance). From a sector perspective, industrials and energy contributed to relative results, while materials and communication services detracted.

## SECTOR REVIEW

### Positive Impacts

**Industrials:** Industrials was a lead contributing sector over the quarter. Out-of-index aerospace and defense company BWX Technologies, Inc. returned positively due to increasing momentum in the nuclear sector as a result of recent executive orders intended to revive the US nuclear industry, where BWX has high exposure to both government and commercial nuclear development.

**Energy:** Energy had overall mixed results, but a robust performance by an American nuclear fuel company kept the sector in positive territory. Centrus Energy Corp. was a key contributor owing to first quarter results and continued robust demand for nuclear power across the US.

### Negative Impacts

**Materials:** Despite positive absolute performance, an underweight kept the strategy in negative relative territory. Zero-weight in containers and packaging, which outperformed, and holdings in the out-of-index construction materials subsectors were main detracting factors.

**Communication services:** Communication services also detracted from relative returns as Starz Entertainment Corp was spun-out from Lionsgate Entertainment in early May 2025. Shares have performed well but may remain volatile given the newness of the company and impacts from transaction-related dynamics.

## STOCK REVIEW<sup>1</sup>

### Key Contributors

**Centrus Energy Corp. Class A:** Centrus Energy Corp. was a key contributor owing to first quarter results and continued robust demand for nuclear power across the US.

**Magnite, Inc.:** Magnite announced robust first-quarter results with solid performance in its DV+ product and continued momentum in CTV, as well as a partnership announcement in late May with Amazon Publisher Services. We believe that Magnite, Inc. would see a benefit if the Department of Justice is successful in their antitrust litigation against Google. Additionally, Magnite's partnership with Amazon allows it access to Amazon connected TV inventory.

**nLIGHT, Inc.:** Positive performance by nLight was driven by a first quarter earnings report that beat revenue expectations due to exceptional results in the aerospace and defense segment and management called out increased confidence in their second quarter outlook. The stock rose with defense suppliers as the outlook for defense spending for the US and the North Atlantic Treaty Organization (NATO) allies improves.

### Key Detractors

**Starz Entertainment Corp:** Starz Entertainment Corp was spun-out from Lionsgate Entertainment in early May 2025. Shares have performed well but may remain volatile given the newness of the company and impacts from transaction-related dynamics.

**Crescent Energy Company:** Crescent Energy experienced headwinds as oil prices fell sharply in April due to increased global supply and concerns about weakening demand.

**Globus Medical Inc:** Shares of Globus fell after the first quarter report missed consensus expectations driven by disappointing revenue and earnings-per-share (EPS) figures, lowered EPS guidance, and ongoing integration and supply-chain issues. Softer enabling technology deal closures were also a factor in underperformance.

<sup>1</sup>Performance of individual stock evaluated is based on total effect. Total effect represents the opportunity cost of an investment manager's investment decisions relative to an overall benchmark, which can include holdings that are not held by the portfolio but contribute to relative portfolio performance.

## MARKET OUTLOOK

In 2025, the US and global equity markets are navigating a complex landscape shaped by shifting monetary policies, trade uncertainties and technological disruption. Interest rates are expected to decline gradually, with the Federal Reserve projected to cut rates by 25 basis points per quarter starting in the third quarter of 2025, potentially lowering the federal funds rate to around 3% by year-end. This easing could help support equity valuations by reducing borrowing costs, particularly for small-cap stocks, which are more sensitive to interest rate changes. However, persistent trade policy volatility, driven by tariff negotiations, could elevate inflation risks, potentially tempering the pace of rate cuts. Despite these headwinds, global economic growth is expected to remain resilient, with the US economy growing at 0-1% and avoiding recession, while Europe and emerging markets like India benefit from accommodative policies and domestic growth drivers.

Corporate earnings were poised to be a key driver of equity performance, as US S&P 500 earnings growth had come in at 12.7% in the first quarter but are now projected to fall to approximately 5% for 2025 according to FactSet. Earnings revisions for US companies have recently trended downward, reflecting caution due to trade uncertainties, while non-US developed markets show more stable earnings outlooks. Despite the “Magnificent Seven” mega-cap tech stocks seeing their earnings growth decelerate, they are still outpacing the broader market of the “remaining” S&P 493 stocks currently. Internationally, Europe’s forward 12-month earnings growth of over 7% and EPS nearing new highs is encouraging, but it appears it may be peaking and turning lower.

Large-cap stocks, particularly in the US, remain favored due to their earnings resilience and exposure to AI-related growth, but we believe small-cap stocks present compelling opportunities as valuations trade at a sizable discount to fair value. Small caps are likely to benefit from lower interest rates and potential deregulation, which could catalyze a rebound, especially in cyclical sectors like industrials and financials. However, their performance hinges on economic stability and tariff resolutions, as they are more exposed to domestic economic fluctuations. Conversely, large caps, especially tech-heavy names, may face risks from elevated valuations and potential AI sector corrections, as seen in early 2025 with the sell-off following DeepSeek’s disruptive AI model announcement. A balanced approach favoring both growth and value stocks across regions may help mitigate risks while capturing upside.

Artificial intelligence continues to be a transformative force, driving productivity gains and reshaping equity market dynamics. The AI sector, while still concentrated in US mega-caps, is broadening as adoption spreads across industries like healthcare and industrials, with Asia (notably Taiwan and India) emerging as potential diversification opportunities. However, concerns about overinvestment in AI infrastructure, highlighted by the market’s reaction to DeepSeek’s cost-effective model, underscore risks of a potential bubble. For 2025, AI’s productivity benefits are expected to bolster corporate margins, but investors should remain selective, focusing on companies with strong fundamentals and reasonable valuations to navigate volatility. Overall, in our view, a cautiously optimistic outlook prevails, with US equities and selective international markets potentially offering

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opportunities amidst a volatile macro environment, provided actively-managed risks are tied to policy uncertainty and AI-driven disruptions.

**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. For more information, call 1-800-373-9387 or visit [bny.com/investments](http://bny.com/investments). Read the prospectus carefully before investing. Investors should discuss with their financial professional the eligibility requirements for Class I shares, which are available only to certain eligible investors, and the historical results achieved by the fund's respective share classes.**

**Past performance is no guarantee of future results.**

## Risks

**Equities** are subject to market, market sector, market liquidity, issuer, and investment style risks, to varying degrees. **Small and midsize company stocks** tend to be more volatile and less liquid than larger company stocks as these companies are less established and have more volatile earnings histories. Investing in **foreign denominated and/or domiciled securities** involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

**Artificial intelligence** refers to computer systems that can perform tasks typically requiring human intelligence, such as visual perception, speech recognition, decision making and language translation.

As of 6/30/25, the fund's top ten holdings were: First Horizon 2.39%, Genius Sports 1.97%, Seacoast Banking Of Florida 1.72%, Magnite 1.65%, BWX Technologies 1.62%, SLM 1.55%, Columbia Banking System 1.55%, Texas Capital Bancshares 1.51%, TXNM Energy 1.42%, Gates Industrial 1.40%,

As of 6/30/25, the companies mentioned represented 5.49% of the fund's portfolio in the aggregate. The holdings listed should not be considered recommendations to buy or sell a particular security. Other holdings may not have performed as well as some of those listed herein. Portfolio composition is subject to change at any time.

The **Russell 2000® Value Index** measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with lower growth earning potential as defined by Russell's leading style methodology. The Russell 2000® Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization-weighted index that is designed to measure equity market performance of emerging markets. This is not the benchmark for the fund. The **MSCI EAFE Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. This is not the benchmark for the fund. The **S&P 500® Index** is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. This is not the benchmark for the fund. The **Dow Jones Commodity Index** is a broad measure of the commodity futures market that emphasizes diversification and liquidity through a simple, straightforward, equal-weighted approach. The index tracks 28 different commodities, from agricultural to precious metals to energy products. **Earnings per share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock, serving as a profitability indicator. An investor cannot invest directly in any index.

## Definitions

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

The fund's investment adviser is BNY Mellon Investment Adviser, Inc. (BNYIA). BNYIA has engaged its affiliate, Newton Investment Management North America, LLC (NIMNA), to serve as the fund's sub-adviser. NIMNA has entered into a sub-sub-investment advisory agreement with its affiliate, Newton Investment Management Limited (NIM), to enable NIM to provide certain advisory services to NIMNA for the benefit of the fund.

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MARK-776616-2025-07-23