

For Professional Clients and, in Switzerland, for Qualified Investors only.

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

BNY Mellon Investments Switzerland GmbH is a financial services provider in Switzerland and is required to categorise clients, excluding financial intermediaries, in accordance with the Financial Services Act (FinSA). For the purposes of this communication, we have categorised you as a professional client. Professional clients are entitled to provide notification in writing if they wish to be re-categorised.

FIXED INCOME AS A GROWTH ASSET:



Unlocking long-term returns

Higher absolute yields and steeper yield curves mean fixed income is no longer just a defensive asset. With the right strategies, it can serve as a powerful growth engine, delivering long-term returns through the compounding impact of reinvesting of income, and strategic allocation to seek out alpha opportunities.

Executive summary

- **Fixed income redefined:** Traditionally viewed as defensive, Insight Investment¹ has observed that fixed income is increasingly being viewed as a potential strategic growth asset due to higher yields and steeper yield curves.
- **Compounding potential:** Reinvested income in fixed income can generate long-term compound returns comparable to historical equity returns, with potential for lower volatility and drawdowns.
- **Yield and duration dynamics:** Insight believes that investors need to understand the various ways that managers can seek to generate returns using fixed income assets and how to balance income generation and interest-rate sensitivity.
- **Active management advantage:** Fixed income markets are inefficient, with data from Morningstar showing even the median manager outperforms passive strategies. Skilled managers have the potential to meaningfully enhance returns through issuer selection, duration management, and sector rotation, giving them scope to outperform passive strategies over time.
- **Global diversification:** Exposure to global markets and including assets such as high yield bonds, emerging market debt and convertible bonds can expand an investor's opportunity set and reduce concentration risk.
- **Opportunities for 'equity-like' returns:**
 - **High yield credit:** Offers the potential for attractive returns with manageable default risk, especially in short-dated bonds.
 - **Fallen angels:** Bonds that have been downgraded from investment grade to high yield can present value opportunities due to forced selling (from both active and passive investors) and the possibility of a subsequent recovery.
 - **Strategic bond strategies:** Flexible mandates allow managers to pivot across sectors and geographies, giving them the freedom to capture incremental returns.

Introduction: Rethinking fixed income

For many investors, fixed income has long been seen as a conservative asset class – ideal for those in retirement or highly risk-averse and seeking low, but relatively safe, long-term returns, often extracted as income.

In the institutional space, capital preservation or liability hedging has been a key investment rationale, with pension schemes, insurers and central banks providing a significant source of demand.

However, in a world of high absolute yields, this traditional view overlooks the potential for fixed income assets to serve as a powerful engine for long-term capital growth. In an era of growing concentration risk in equity markets and increasing demand for diversification away from this risk, fixed income is being re-evaluated as a strategic growth asset.

¹ Investment Managers are appointed by BNY Mellon Investment Management EMEA Limited (BNYMIM EMEA), BNY Mellon Fund Managers Limited (BNYMFM), 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 BNYMIM EMEA, BNY MFML or the BNY Mellon funds.

The power of compounding

Compounding is the process of reinvesting investment earnings to generate additional returns over time. In equities, this occurs primarily through capital appreciation – growing investment value leads to higher capital, which in turn compounds future returns. In fixed income, compounding is primarily driven by reinvested income, such as coupon payments or interest, allowing investors to earn returns on both principal and accumulated interest.

For example, a bond that pays 6% income annually generates \$600 on a \$10,000 investment in the first year. If reinvested at the same rate, the capital rises to \$10,600, earning \$636 in year two, and so on. Over time, this exponential growth can rival or exceed returns from more volatile assets, especially when interest rates remain high. After years of historically low yields and frequent income extraction, the power of compounding in fixed income is often underappreciated.

High yield corporate credit, like equities, is a cyclical asset class. Over the long term, global high yield and global equities have delivered broadly similar returns (see Figure 1). US equities have outperformed high yield in recent years, largely propelled by the extraordinary performance of US mega-cap technology stocks. However, elevated valuations raise questions about the sustainability of this trend. For instance, Nvidia – one of the key drivers of US equity gains – reached a market capitalisation of \$4.3 trillion at the end of June 2025, equivalent to approximately 4% of global GDP.

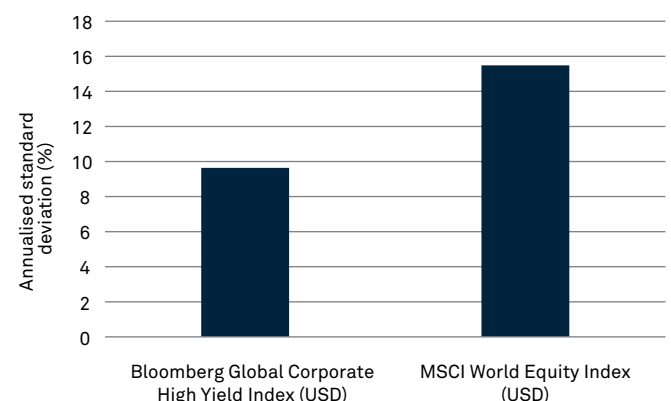
“The power of compounding in fixed income is often underappreciated.”

FIGURE 1: WHEN COUPONS ARE REINVESTED, GLOBAL CORPORATE HIGH YIELD HAS PROVIDED SIMILAR COMPOUND RETURNS TO GLOBAL EQUITIES²



Unlike equities, the prices of which can be highly volatile, and which may or may not pay dividends, fixed income instruments offer predictable, scheduled cash flows. Bonds typically pay semi-annual or annual coupons, providing frequent reinvestment opportunities, which can be beneficial when interest rates are at high levels. These regular cashflows and the contractual nature of debt markets means that even for an asset class such as high yield credit, the volatility (or ‘standard deviation’) of returns has been significantly lower than for global equities (see Figure 2), providing superior risk-adjusted returns. Drawdowns have also typically been more moderate than seen in equity markets, with recoveries faster.

FIGURE 2: GLOBAL CORPORATE HIGH YIELD HAS BEEN SIGNIFICANTLY LESS VOLATILE THAN GLOBAL EQUITIES³



² Source: Insight and Bloomberg. Total return indices. Data between 31 December 2000 and 31 July 2025.

³ Source: Insight and Bloomberg. Data between 31 December 2000 and 31 July 2025.

Yield, duration and reinvestment strategies

As a fixed income investor, yield provides the foundational income stream, while duration determines sensitivity to interest rate changes – the price of longer duration bonds are more sensitive to shifts in interest rate expectations; creating potential for capital gains when rates fall or losses when rates rise. Reinvestment strategies enhance returns by compounding income over time, especially in environments when yields are elevated, but their effectiveness depends on the timing and shape of the yield curve. To harness fixed income as a growth asset, investors must understand the interplay between yield, duration, and reinvestment, along with the potential for capital gains.

UNDERSTANDING YIELD

The yield on a bond is the return generated by it, expressed as a percentage of its market price. Key concepts include:

- **The coupon rate:** The annual payment made by the bond for each £100/€100/\$100 in nominal principal held. This is a contractual payment set when the bond is first issued.
- **The 'current' or 'income yield':** Annual coupon divided by the current market price.
- **Yield to maturity (YTM):** This is the total annual percentage return anticipated on a bond if it is held to maturity, with all payments made as scheduled and reinvested at the current yield of the bond.

When yields are at high absolute levels, this accelerates compounding, as it means a larger amount is reinvested each year. However, a high yield on a specific bond can be a result of higher credit or duration risk, so it is not just the yield that should be considered when assessing investment opportunities.

DURATION AND INTEREST RATE SENSITIVITY

Duration measures a bond's sensitivity to interest rate changes. Longer-duration bonds can offer higher yields but can also come with greater price volatility. Managing duration is critical to balancing growth and risk.

REINVESTMENT STRATEGIES

- **Laddering:** Investing in bonds with staggered maturities to ensure regular maturities for reinvestment.
- **Barbell strategy:** Combining short- and long-term bonds to balance yield and interest rate exposure.
- **Rolling portfolios:** Continuously reinvesting matured bonds into new issues to maintain exposure and compound returns.

THE POTENTIAL FOR CAPITAL GAINS

While income is an important driver of fixed income returns, it is far from the only one. When absolute yields fall – whether due to a fall in government bond yields or tightening credit spreads – bond prices typically rise.

A manager with the flexibility to invest across the full spectrum of global fixed income assets can actively seek out pockets of value, identifying bonds they believe are undervalued and capturing capital gains as those bonds revert to fair value. When executed successfully, this approach can enhance income-driven returns and amplify the power of compounding.

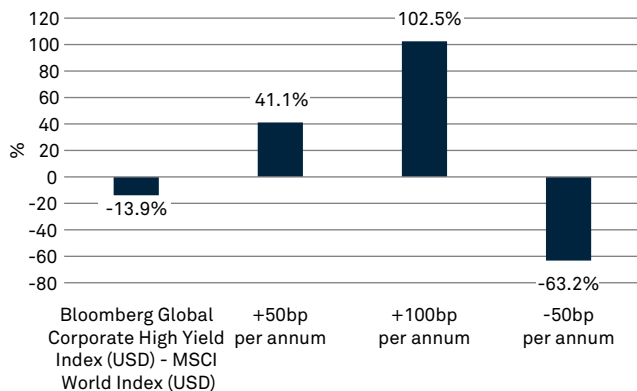
“While income is an important driver of fixed income returns, it is far from the only one.”

Active management: Compounding with conviction

ACTIVE VERSUS PASSIVE MANAGEMENT

Passive fixed income strategies may appear to offer simplicity and low costs, aiming to track broad fixed income indices before fees. However, they may miss opportunities for return enhancement. If an active manager can consistently generate returns in excess of an index, then compounding these higher returns becomes meaningful over time. Figure 3 illustrates the cumulative performance of the Bloomberg Global Corporate High Yield Index relative to the MSCI World Index between 31 December 2000 and 31 December 2024 across a range of scenarios.

FIGURE 3: ACTIVE MANAGEMENT CAN MAKE A MEANINGFUL DIFFERENCE TO LONG-TERM COMPOUND RETURNS⁴



The risk is of course that the manager underperforms the index. Data from Morningstar⁵ shows that on an asset-weighted basis high-yield bond managers have outperformed by 60 basis points (bp) per annum over the 15-years to end 2024. Over 50% of funds successfully outperformed their index. On the other hand, the data suggest that global large blend equities funds underperformed by 1.4% per annum, with only 10% of funds outperforming.

This highlights the need to look beyond index-level returns when making investment decisions, ensuring that strategies are realistically aligned with objectives and backed by a high degree of confidence in their achievability.

A FLEXIBLE, ACTIVE APPROACH MAXIMISES OPPORTUNITIES TO ADD VALUE

Active managers can seek to exploit market inefficiencies, such as mispriced markets, sectors, securities or liquidity premiums, to enhance returns. In volatile environments, active management provides the flexibility to respond to macroeconomic shifts and adjust positioning to try and protect against downside risks. It also allows for:

- **Credit/issuer selection:** Identifying undervalued issuers with strong fundamentals or taking advantage of new issue premium when bonds are issued in primary markets.
- **Duration management:** Adjusting portfolio sensitivity based on the outlook for interest rates.
- **Sector rotation:** Shifting between government, corporate, municipal, and emerging market bonds to capture growth.

GLOBAL DIVERSIFICATION AND CREDIT OPPORTUNITIES

Global fixed income markets offer a vast array of instruments beyond domestic government and investment grade corporate bond markets, increasing the number of opportunities available for an active manager to enhance returns. These include:

- **High-yield bonds:** Issued by companies with lower credit ratings but typically offering higher yields than investment grade bonds.
- **Emerging market debt:** Often provide higher yields and growth potential than developed market debt, albeit with greater risk. These are often issued in 'hard' currencies, such as US dollars or euros, allowing managers to invest without the emerging market currency risk if desired.
- **Convertible bonds:** Hybrid instruments that combine the downside protection offered by a bond with the opportunity for equity upside.

Diversifying across geographies and credit qualities allows investors to tap into different economic cycles, interest rate regimes, and currency exposures. This not only enhances return potential but also reduces portfolio concentration risk.

⁴ Source: Insight and Bloomberg. For illustrative purposes only.

⁵ Morningstar Active/Passive Barometer Report: Mid-year 2025. <https://www.morningstar.com/business/insights/research/active-passive-barometer>

Opportunities for ‘equity-like’ returns in fixed income

In Insight’s view, there are a number of strategies that have the potential to generate superior risk-adjusted returns than broad equity indices.

OPTION 1: HIGH YIELD CREDIT

High yield credit refers to bonds issued by companies with lower credit ratings – typically below BBB – by S&P or Baa3 by Moody’s. These bonds offer higher interest rates (yields) to compensate investors for the greater risk of default compared to investment-grade bonds. However, as shown in Figure 4, default rates have declined, arguably due to a structural change that has occurred in fixed income markets, where issuers that are smaller or in distress are turning to private debt markets where any restructuring can be more carefully managed.

There are various ways to better align investment strategies with an investor’s specific objectives. In high yield markets, for example, the additional yield offered by longer-dated bonds is often marginal, despite their greater sensitivity to interest rate movements, lower credit transparency and greater uncertainty. Focusing on shorter maturity bonds can help smooth returns during periods of rising rates. This is illustrated in Figure 5, where the Bloomberg US 1–3 Year High Yield Index experienced a more moderate drawdown in 2022, a year marked by aggressive Federal Reserve tightening. Credit risk is also more easily assessed by investing over shorter timeframes as it gives investors greater transparency over a company’s earnings and ability to repay their bonds. An actively managed approach, which includes regular contact with management teams, can seek to minimise default risk to ensure that a client fully benefits from the high levels of yields.

FIGURE 4: US HIGH YIELD ROLLING 12MTH DEFAULT RATE⁶



⁶ Source: BoA. Data as at 31 July 2025.

⁷ Source: Insight and Bloomberg. Data as at 31 July 2025.

^{8,9} Source: Bloomberg, Insight, December 2024. Indices: Fallen Angel Bonds (Equal Weighted) and Bloomberg Barclays US HY Corporate BB Index (Oct 2004 to Dec 2024).

FIGURE 5: A SHORT-DATED APPROACH CAN SMOOTH RETURNS⁷



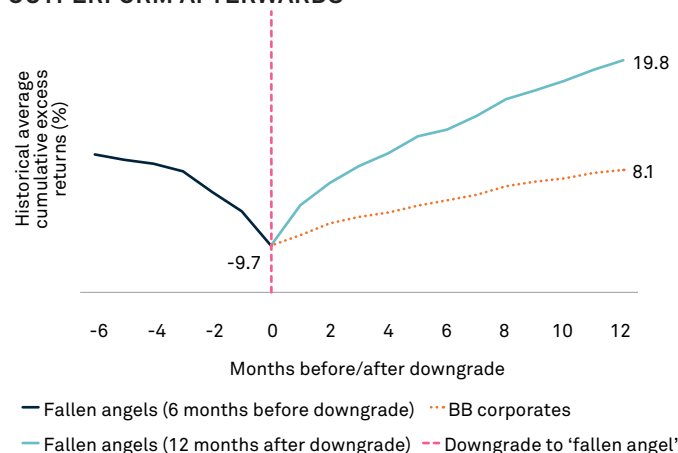
OPTION 2: FALLEN ANGELS

A fallen angel in credit markets refers to a bond that was rated as investment grade but has been downgraded to high yield. It may seem counter-intuitive, but downgrades, particularly downgrades to fallen angel status, can be particularly compelling fixed income opportunities.

These downgrades can create predictable and potentially exploitable volatility. When an investment grade bond is downgraded to high yield, many investors, but especially passively managed investment grade accounts, are forced to sell them, regardless of the underlying fundamentals. This typically exacerbates the bond’s underperformance, allowing investors with more flexibility to purchase the issue at potentially attractive valuations.

Since 2004, fallen angels have underperformed by around 10% over the six months before a downgrade, but then outperformed by around 20% over the 12 months after (see Figure 6).⁸

FIGURE 6: FALLEN ANGELS TYPICALLY UNDERPERFORM IN THE MONTHS BEFORE DOWNGRADE, THEN OUTPERFORM AFTERWARDS⁹



OPTION 3: STRATEGIC BOND STRATEGIES

Unlike traditional bond funds that are constrained by sector or duration mandates, strategic bond strategies can pivot between government bonds, investment-grade credit, high yield, emerging markets, and even currencies. This flexibility allows managers to respond to macroeconomic shifts, such as central bank policy changes or geopolitical shocks, with agility, making them well-suited to navigate today's complex fixed income environment.

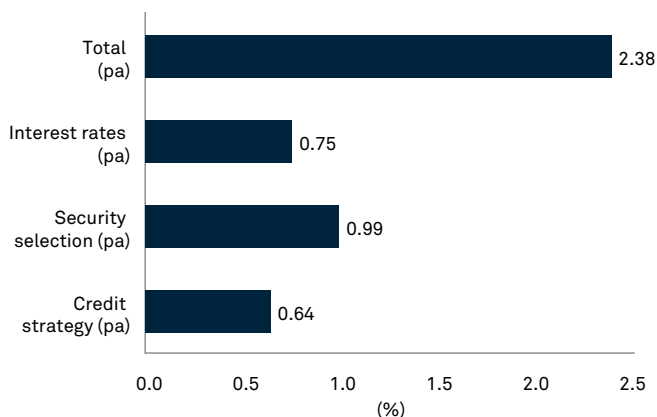
By having a flexible mandate, strategic bond managers are not forced to maintain any given position. They can lock in profits when positions return to fair value and seek out the next undervalued trade. Exploiting a broad range of opportunities provides the opportunity to build up incremental returns from multiple different sources – such an effect can be illustrated using Insight's Responsible Horizons Strategic Bond strategy in Figure 7.

“This [strategic bond] flexibility allows managers to respond to macroeconomic shifts, such as central bank policy changes or geopolitical shocks, with agility.”

When aggregated, these incremental returns can result in meaningful outperformance of traditional fixed income benchmarks, which gives strategic bond strategies the potential to compete with higher risk/higher return segments of the fixed income universe.

The outperformance target stated is for indicative purposes only, may be changed without notice and is not a guarantee of future returns.

FIGURE 7: INSIGHT'S RESPONSIBLE HORIZONS STRATEGIC BOND STRATEGY DEMONSTRATES THE POWER OF AN ACTIVE APPROACH ACROSS BOTH DURATION AND CREDIT MARKETS¹⁰



¹⁰ Source: Insight as at 30 June 2025. The representative portfolio adheres to the same investment approach as the Responsible Horizons Strategic Bond strategy. For illustrative purposes only. Excess return attribution since inception on 24 August 2021 until 30 June 2025. Return gross of fees, in GBP, unless otherwise stated. Performance attribution may not tally due to rounding, compounding and residual unattributed performance. The strategy is benchmarked against the IA GBP strategic bond sector but shown here versus a broad global bond index = 70% Bloomberg Global investment grade corporate total return index (£hedged) / 30% Bloomberg Global high yield corporate total return index (£hedged).

Conclusion

Fixed income is no longer just a defensive play. With the right strategies – focused on reinvestment combined with active management and global diversification – it can serve as a powerful growth engine. Investors can achieve equity-like returns with lower volatility and drawdown risk, making fixed income an essential component of long-term investment strategies in today's evolving market landscape.

RESPONSIBLE HORIZONS STRATEGIC BOND STRATEGY

Past performance is not a guide to future performance.

PERFORMANCE – 12-MONTH RETURNS (%)

	Aug 2020 to Aug 2021	Aug 2021 to Aug 2022	Aug 2022 to Aug 2023	Aug 2023 to Aug 2024	Aug 2024 to Aug 2025
Representative portfolio	-	-12.02	2.62	14.73	6.99
Performance benchmark	5.6	-11.33	0	10.69	4.94

Source: Lipper as at 31 August 2025. The representative portfolio adheres to the same investment approach as the Responsible Horizons Strategic Bond Strategy. Performance calculated as total return, income reinvested, net of annual charges (including AMC of 0.60%), in GBP. Returns may increase or decrease as a result of currency fluctuations.

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

KEY RISKS ASSOCIATED WITH THIS STRATEGY

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

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

Geographic Concentration Risk: Where the strategy invests significantly in a single market, this may have a material impact on the value of the strategy.

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 strategy 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 strategy.

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 strategy.

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

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

CoCo's Risk: Contingent Convertible Securities (CoCo's) convert from debt to equity when the issuer's capital drops below a pre-defined level. This may result in the security converting into equities at a discounted share price, the value of the security being written down, temporarily or permanently, and/or coupon payments ceasing or being deferred.

Responsible Investing Risk: The investment policy for this strategy places restrictions on its exposure to certain sectors or types of investments to reflect its responsible investing approach. The strategy's performance may be negatively impacted due to these restrictions in comparison to strategies which do not have these restrictions. The strategy will not engage in securities lending activities and, therefore, may forego any additional returns that may be produced through such activities.

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 strategy to financial loss.

A complete description of risk factors is set out in the Prospectus in the section entitled "Risk Factors".

IMPORTANT INFORMATION

For Professional Clients and, in Switzerland, for Qualified Investors only. This is a financial promotion. Any views and opinions are those of the investment manager unless otherwise noted and is not investment advice. This is not investment research or a research recommendation for regulatory purposes. BNY, BNY Mellon and Bank of New York Mellon are the corporate brands of The Bank of New York Mellon Corporation and may be used to reference the corporation as a whole and/or its various subsidiaries generally.

Issued in Europe (ex. Switzerland) by BNY Mellon Fund Management (Luxembourg) S.A. (BNY MFML), a public limited company (société anonyme) incorporated and existing under Luxembourg law under registration number B28166 and having its registered address at 2-4 Rue Eugène Ruppert L-2453 Luxembourg. BNY MFML is regulated by the Commission de Surveillance du Secteur Financier (CSSF).

Issued in Switzerland by BNY Mellon Investments Switzerland GmbH, Bäregasse 29, CH-8001 Zürich, Switzerland.

Issued in the UK by BNY Mellon Investment Management EMEA Limited, BNY Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA. Registered in England No. 1118580. Authorised and regulated by the Financial Conduct Authority. Doc ID: 2697339; Expiry: 30 March 2026. T13542 09/25