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A DECADE OF DELIVERY: 10 REASONS GLOBAL SHORT-DATED HIGH YIELD BONDS STILL STAND OUT

November 2026

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A decade ago, we launched the pooled version of our Global Short-Dated High Yield Bond strategy with a simple belief: investors did not need to sacrifice quality or take excessive duration risk to access attractive income-based returns.

A decade later, markets have changed dramatically. We have lived through negative interest rates, a global pandemic, the sharpest rate-hiking cycle in decades, regional banking stresses, inflation shocks and geopolitical upheaval.

Today, the yield available in global short-dated high yield bond markets is higher than it was 10 years ago, and we believe this is an attractive starting point for navigating the next decade. In our view, the case for an active global short-dated approach to high yield bonds remains as compelling as ever.

We believe there are 10 reasons why global short-dated high yield bonds could be attractive for many investors today.

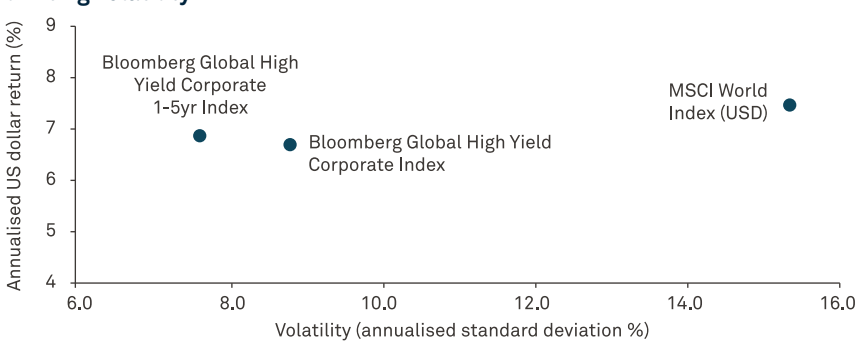
1

Lower interest rate sensitivity can help deliver returns with less volatility

Short-dated high yield offers a way to capture income with less sensitivity to interest-rate and credit-spread risk than longer-dated strategies, which can be very valuable during times of market volatility. Furthermore, because income has historically driven the bulk of high yield returns, giving up potential for capital gains may not be the sacrifice clients expect. We can illustrate this using the Bloomberg Global High Yield Corporate Index and its 1-5 year sub-index, both hedged to US dollars. Since inception, the 1-5 year index has delivered slightly higher annualised returns than the broader all-maturity index, while exhibiting lower volatility. Global equities have generated marginally higher annualised returns but at the cost of significantly higher volatility (see Figure 1).

> “Global short-dated high yield bonds have generated long-term returns only marginally lower than global equity markets, but with significantly lower volatility.”
>
> **CATHY BRAGANZA**
> **SENIOR PORTFOLIO MANAGER**
> HIGH YIELD AND LOANS

Figure 1: Global short-dated high yield bonds have delivered returns while limiting volatility



Source: Insight and Bloomberg. Data between 31 December 2000 and 30 September 2026. Bloomberg Global High Yield Corporate 1-5 Year Index hedged into US dollars, Bloomberg Global High Yield Corporate Index hedged into US dollars, MSCI World Index (USD).

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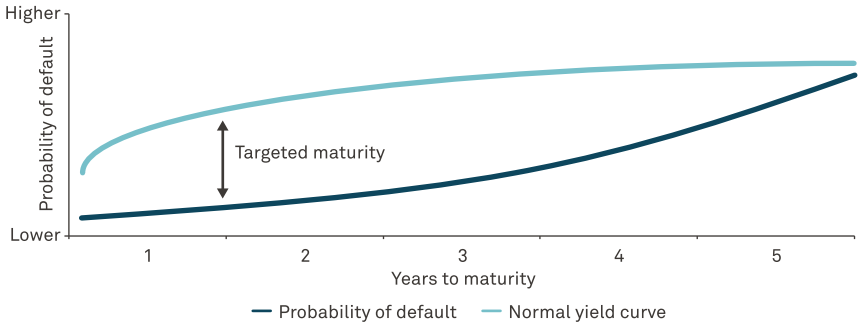
A shorter investment horizon increases business visibility

Credit ratings reflect the issuer's creditworthiness and a bond's seniority, not its maturity. But maturity is a critical factor when assessing risk. The further into the future you go, the greater the uncertainty about the risks a company faces, and the probability of default rises accordingly (as illustrated in Figure 2).

Our Global Short-Dated High Yield Bond strategy emphasises not just owning bonds with short maturities but identifying issuers with a clear pathway to liquidity and the ability to repay debt over a two-year investment horizon. We favour issuers with predictable revenues and cash flows, including businesses supplying essential products, while generally avoiding companies whose repayment capacity depends heavily on the economic cycle.

> "Looking back at history, just 1.5% of the BB-rated high yield markets has defaulted over a two-year horizon, but 4.5% has defaulted on a five-year horizon."
>
> **ULRICH GERHARD**
> **SENIOR PORTFOLIO MANAGER**
> HIGH YIELD

Figure 2: Default risk rises with time, but spreads do not necessarily compensate



Source: FitchRatings Average default rates between 1990-2025, 2025 Transition and Default Studies. For illustrative purposes only.

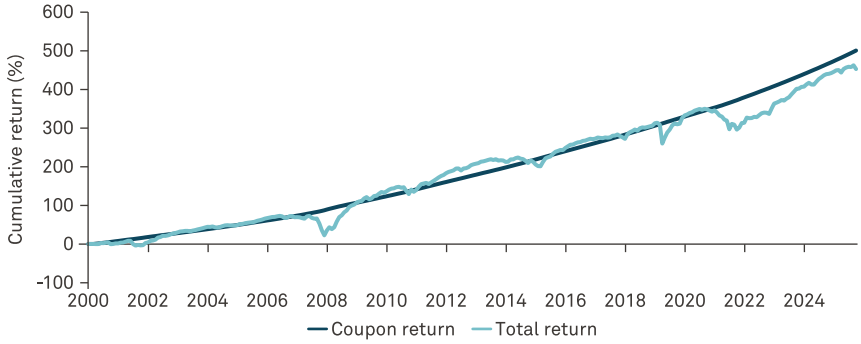
3

Income can provide a powerful anchor for returns

Over time, income has been the main driver of total returns in short-dated credit, providing a powerful anchor through different market environments. This dynamic is illustrated in Figure 3, which compares the cumulative income generated by the Bloomberg Global High Yield Corporate 1-5 Year Index (hedged into US dollars) relative to its total return since its inception. While total returns have fluctuated – yields declined following the 2008 global financial crisis, then rose sharply during the 2022 inflation shock – income drove strong positive index returns over the long term, particularly in recent years when starting yields were significantly higher. This can help create a more predictable return profile.

> "An investor holding the Bloomberg Global High Yield Corporate 1-5 Year Index since its inception would have generated an average of 0.58% in income each month."
>
> **LORRAINE SPECKETER**
> **PORTFOLIO MANAGER**
> LOANS

Figure 3: In the short-dated high yield bond market, income has done the heavy lifting



Source: Insight and Bloomberg. Data as at 30 September 2026. Data between 31 December 2000 and 30 September 2026. Bloomberg Global High Yield Corporate 1-5 year Index hedged into US dollars. The quoted benchmark does not reflect deductions for fees, expenses or taxes. The benchmark is unmanaged and does not reflect actual trading. There could be material factors relevant to any such comparison such as differences in the volatility, and regulatory and legal restrictions between the indexes shown and the strategy. Investors cannot invest directly in any index.

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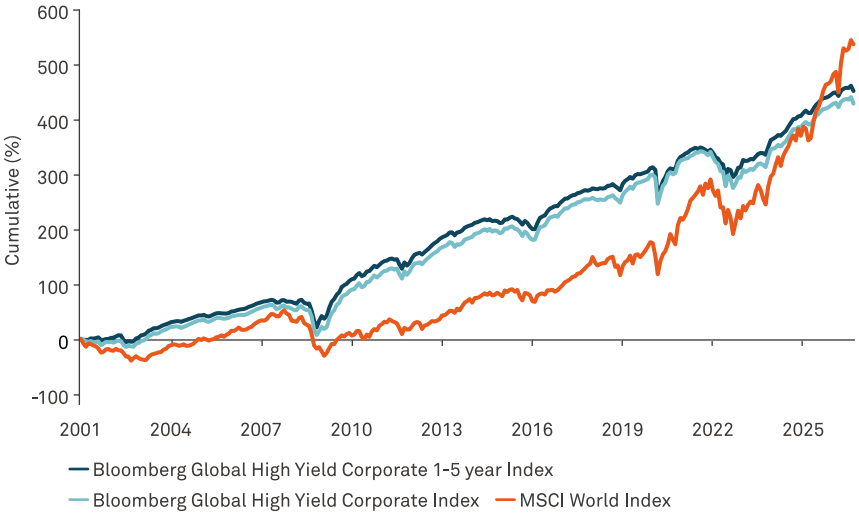
Reinvested income and the power of compounding can drive long term returns

After years of historically low yields and frequent income extraction, we believe the power of compounding in fixed income is often underappreciated. In equities, compounding occurs primarily through capital appreciation. In fixed income, it is primarily driven by reinvested income, allowing investors to earn returns on both principal and accumulated interest. Over time, reinvested income can make a substantial contribution to cumulative returns, particularly when starting yields are elevated.

Over the long term, global high yield bonds and global equities have delivered broadly similar returns (see Figure 4). Global equity markets have outperformed high yield bonds over the last few years, largely propelled by the extraordinary performance of US mega-cap technology stocks. Whether this outperformance can continue is a matter of considerable debate.

> “Since its inception, the Bloomberg Global High Yield Corporate 1-5 Year Index has generated an annualised return of 6.9% per annum, versus 7.5% for global equities.”
>
> **CATHY BRAGANZA**
> **SENIOR PORTFOLIO MANAGER**
> HIGH YIELD AND LOANS

Figure 4: Global high yield bonds have generated impressive compound returns over the long term



Source: Insight and Bloomberg. Data between 31 December 2000 and 30 September 2026. Bloomberg Global High Yield Corporate 1-5 Year Index and Bloomberg Global High Yield Corporate Index hedged into US dollars.

5

A global opportunity set allows investors to exploit valuation dislocations

As illustrated in Figures 5 and 6, the global high yield bond market has experienced significant regional divergence over time. This has reflected variations in sector composition, economic cycles, monetary policy and investor flows. Although 12-month rolling performance has moved in the same broad direction over time, the scale of market movements has varied considerably.

That variation is due, in part, to the structural differences between these high yield markets. The US market is larger, more liquid and has historically carried greater exposure to cyclical sectors such as energy, consumer discretionary and telecommunications. Europe, meanwhile, has tended to have a higher-quality issuer base and a shorter-duration profile.

These differences mean that regional markets respond differently to the same macroeconomic events. The collapse in oil prices in 2015/16, for example, disproportionately affected US high yield due to its heavy energy exposure, while European issuers were relatively insulated. Conversely, periods of European sovereign stress or growth weakness have often weighed more heavily on European high yield returns. Emerging markets have often been the highest-beta element of the high yield universe.

Importantly, the divergence in returns has often been far greater than would be apparent from looking at long-term averages alone. For active, global investors, these periods may create valuable opportunities to rotate capital towards regions offering superior risk-adjusted return potential.

Figure 5: Yields have varied between regions at various periods

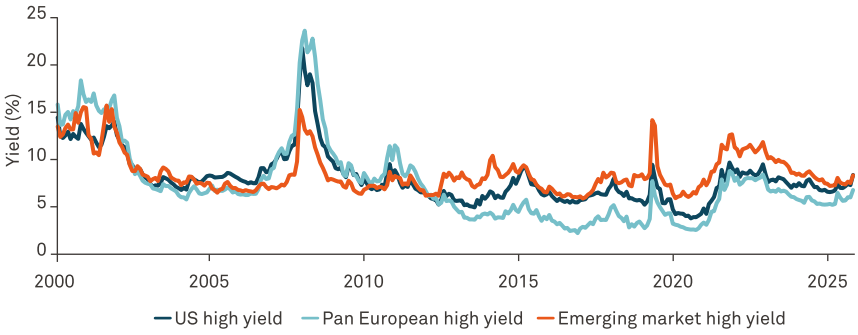
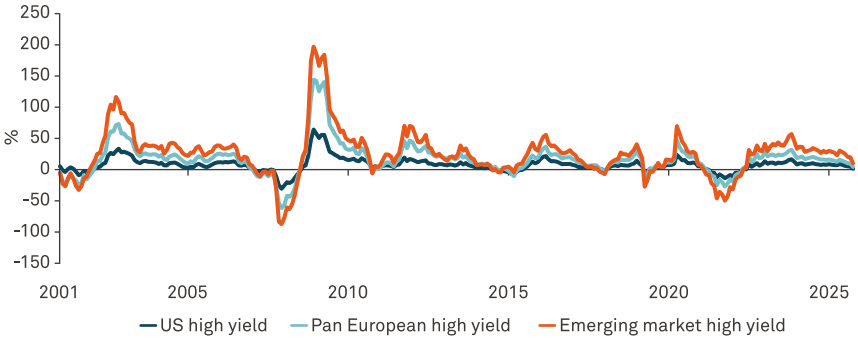


Figure 6: 12-month rolling returns



Source: Insight and Bloomberg. Data between 31 December 2000 and 30 September 2026. Bloomberg US, Pan European and Emerging Market High Yield Corporate Indices, all in US dollars

6

High spread dispersion creates positive conditions for active security selection

Security selection is a potentially valuable source of excess return for active high yield managers. While the asset class is influenced by the broader economic cycle, issuer fundamentals can vary significantly, and spreads may not always accurately reflect differences in risk between issuers.

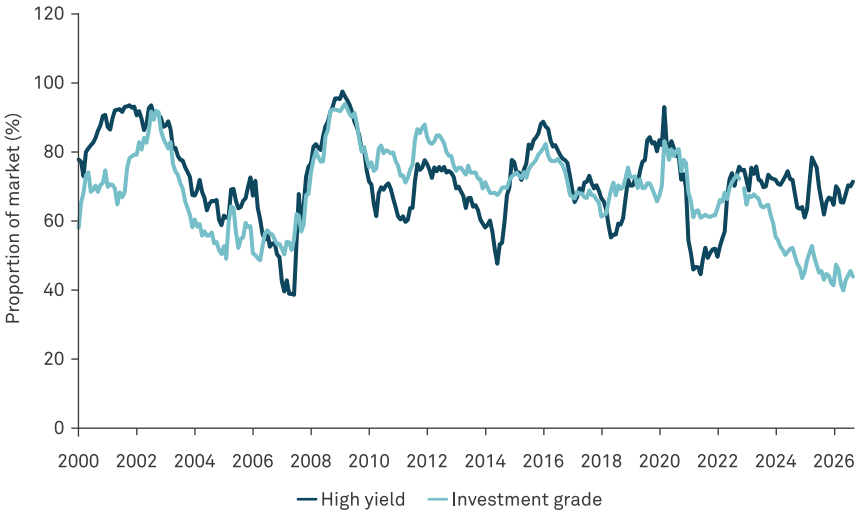
Fundamentals across much of the high yield universe remain encouraging. Corporate profitability is still robust, with gross profit margins well above long-term averages. Over the past two decades, many high yield businesses have become larger, more diversified and operationally efficient, which may improve their ability to withstand economic shocks. The resilience shown during both the pandemic and the recent inflation surge highlights the strength of many business models, with companies generally able to protect profitability by passing higher costs through to customers.

Balance sheets have also generally improved. Many lower-rated issuers have reduced leverage over recent years, repaying debt accumulated during the pandemic and strengthening financial flexibility. Interest coverage ratios remain healthy across much of the market, suggesting that, despite higher borrowing costs, many companies continue to generate earnings comfortably in excess of their interest obligations and could weather a higher-rates environment.

However, these strong aggregate fundamentals mask considerable divergence beneath the surface, and this is reflected in a high level of spread dispersion relative to the investment grade market, as illustrated in Figure 7. Spread dispersion measures the percentage of bonds trading with a spread a certain proportion away from the index.

For active investors, this dispersion creates potential opportunities to identify issuers whose fundamentals are stronger than market pricing implies, while avoiding companies where they believe the risks are not sufficiently reflected in valuations. As a result, we believe a disciplined approach to issuer selection remains essential for investors seeking to generate excess returns in high yield credit.

Figure 7: Spread dispersion remains wide in high yield bond markets, despite narrowing in investment grade bond spreads



Source: BofA Global Research. Data as at 30 September 2026. Dispersion is measured as the % of bonds trading with a spread of +/- 100 basis points (bp) or more from the index level for high yield, and +/- 25bp from the index level for investment grade. Uses ICE Data Indices for reference point.

7

Call premiums can provide an additional source of return

A key and often overlooked feature of the high yield market is the ability of issuers to redeem bonds early by paying a call premium. Bonds may be called for a variety of reasons, including deleveraging, a change of control, access to cheaper financing or changes in a company's capital structure. However, the most common reason is that a company has reached an important milestone in its business plan and wants to refinance its debt to support the next phase of growth.

High yield companies typically think very differently about capital allocation than their investment grade peers. Many high yield issuers are backed by private equity owners or management teams focused on growing equity value over a five-to-seven-year period. Debt is not simply a source of funding, but a tool used to enhance equity returns. The objective is often to build a larger, more profitable business that can ultimately be sold at a significant gain for shareholders.

As companies execute their growth plans, they frequently reach points where refinancing becomes strategically attractive. Management may want to extend the maturity profile of its debt, secure funding for the next stage of development, or take advantage of improved access to capital markets resulting from stronger profits and a larger business. In these situations, the cost of paying a call premium is often insignificant compared with the potential increase in future equity value.

This is why issuers will sometimes refinance bonds even when interest rates are higher than when the original debt was issued. From a bondholder's perspective, paying a premium to refinance may appear irrational. From an equity owner's perspective, however, it can make perfect sense. If refinancing helps ensure funding for the next stage of growth and supports the long-term value of the business, the benefit can far outweigh the relatively modest cost of redeeming existing debt early.

For investors, this dynamic can provide an additional source of return. When a bond is called above par, investors receive not only the contracted coupon payments but also the call premium, boosting realised returns.

This opportunity is particularly relevant to short-dated high yield bond strategies. By focusing on companies with visible business plans, strong cash-flow generation and identifiable corporate milestones, we believe it is possible to anticipate which issuers are most likely to refinance early.

8

A disciplined focus on avoiding defaults helps investors capture the full yield on offer

We believe regular contact with management is critical to ensure its plan is on track. We normally identify four to five key milestones over a two-year period which need to be met for us to be confident that the issuer will repay its debt on time. If it becomes clear that the plan is deviating from the expected timeline, we sell the issue.

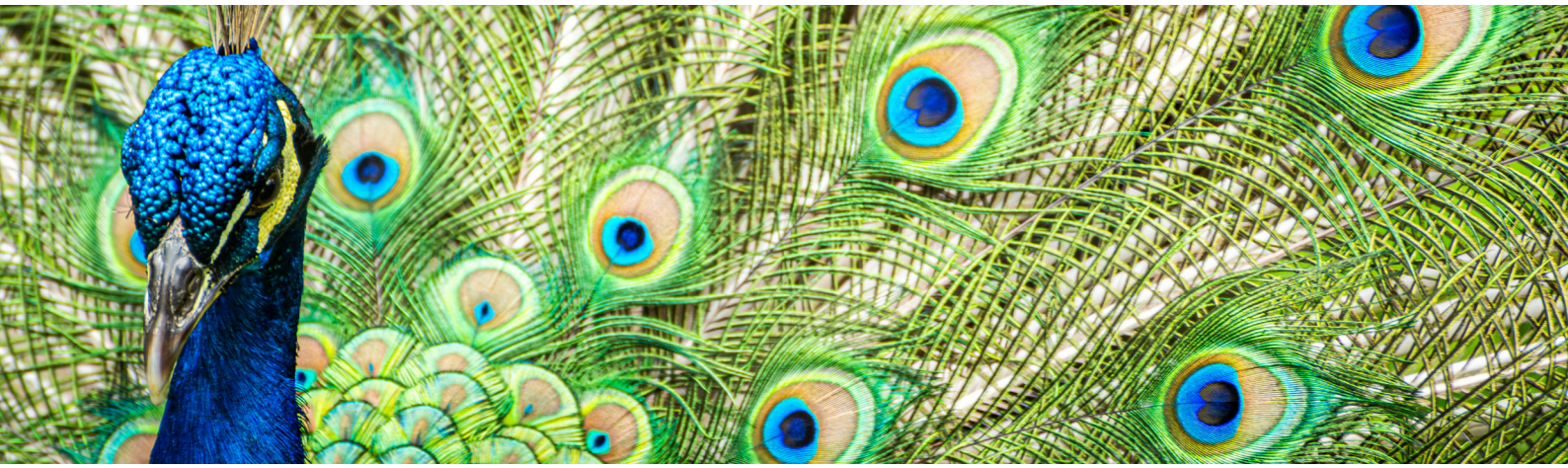
Our focus on visible cash flows and ongoing monitoring aims to reduce default risk under normal market conditions and capture yield.

Another simple rule that supports our robust process is to seek to avoid companies with a short track record or that are asset-light. We generally avoid CCC-rated issues which carry a significantly higher default risk. We make an exception for subordinated debt whose default risk reflects that of a higher-rated parent company rated BB or B.

> "Over the last decade the average year-on-year default rate for BB-rated bonds has been 0.1% versus 14% for CCC-rated bonds[1]"

ULRICH GERHARD
SENIOR PORTFOLIO MANAGER
HIGH YIELD

1. Source: BofA Global Research. Data as at 30 September 2026.



9

Strong market technicals may support the asset class

The global high yield bond market currently benefits from a supportive technical backdrop, including limited near-term maturities and a marked improvement in average credit quality.

Management teams are often executing clearly defined growth plans, managing rapidly growing businesses with specific objectives. Securing certainty of funding has become a critical element of this planning, allowing them to remain focused and undistracted by volatility within credit markets. The pandemic reinforced this mindset, and we see no signs of it changing.

As a result, companies are actively managing their maturity profiles, often refinancing well ahead of scheduled maturities to secure funding certainty. This leaves relatively few bonds maturing within a two-year horizon (Figure 8), reflecting a deliberate approach to ensure business continuity should market access become temporarily unavailable. There has also been a marked shift in the composition of high yield markets over time. Between 1999 and August 2026, the percentage of the global high yield bond market holding a BB rating rose from around 30% to 60% – a significant improvement in average credit quality (see Figure 9). These two factors have helped keep default rates low over recent years.

Figure 8: Maturities are well termed out

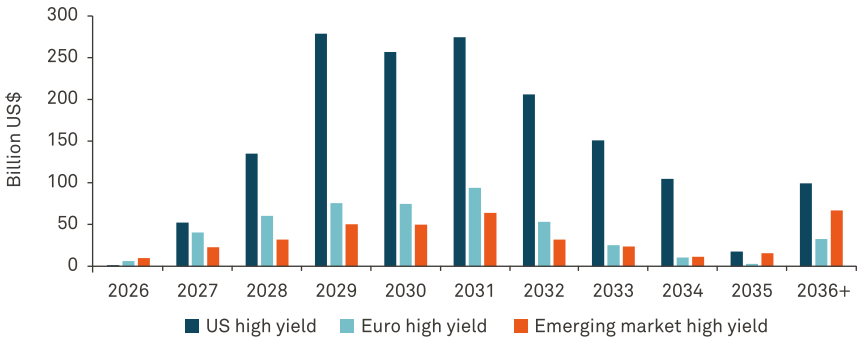
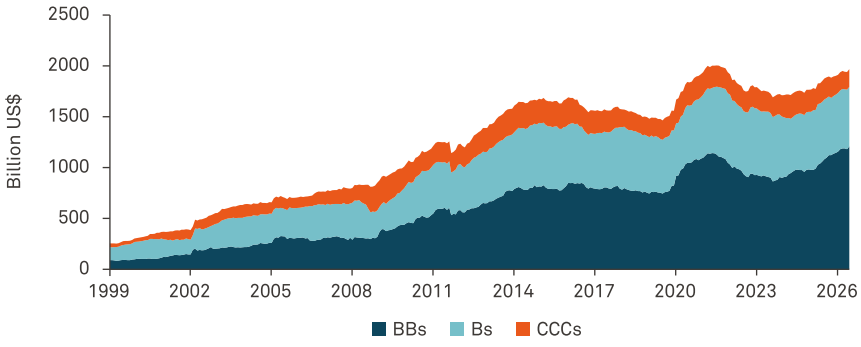


Figure 9: The quality of the global high yield bond market has improved over time



Source: BofA Global Research. Data as at 30 September 2026.

10

An institutional investor base has helped improve market resilience

A decade ago, the high yield bond market was dominated by retail investors, which contributed to greater volatility. At the end of March 2026, pension funds and insurance companies directly owned 39% of the high yield market (see Figure 10), and a significant share of these institutional holdings is expected to remain anchored in long-term allocations to the asset class. Many other institutional investors will hold the asset class within either dedicated high yield bond funds or core-plus or flexible funds, which can strategically allocate to the asset class. This large institutional investor base may increase stability, while the high absolute level of yields, improved credit quality and low level of defaults should continue to support institutional demand.

Figure 10: The composition of high yield bond investors (estimated assets)

	US$bn	%
Dedicated funds	463	27
Core-plus/flexible funds	406	24
Pension funds	327	19
Insurance companies	332	20
Alternative managers	156	9
Banks/collateralised loan obligations/business development companies	15	1
Total	**1,699**	**100**

Source: BofA Global Research. Data as at 31 March 2026.

THE NEXT DECADE STARTS HERE

Ten years after the launch of the pooled version of our Global Short-Dated High Yield Bond strategy, we believe the foundations of the approach remain firmly intact. Shorter maturities can reduce sensitivity to interest rates, improve visibility over repayment and place income at the centre of the return profile.

In our view, today's higher starting yields, stronger average credit quality and limited near-term maturities provide a supportive backdrop for investors. Combined with a global opportunity set and meaningful dispersion between issuers, sectors and regions, we believe this creates potentially attractive conditions for disciplined active management.

Markets will continue to present challenges, but our experience reinforces a simple principle: focusing on income, maintaining credit discipline and avoiding unrewarded risks can provide a strong foundation for compounding returns over time.

Key investment risks: BNY Mellon Global Short-Dated High Yield Bond strategy

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

Currency Risk: Strategies which invest in international markets may be exposed to changes in currency rates which could affect the value of their portfolios.

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

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, a 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 portfolio when due.

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

Liquidity Risk: The strategy may not always find another party willing to purchase an asset that the strategy wants to sell which could impact the strategy's ability to sell the asset or to sell the asset at its current value.

China Interbank Bond Market and Bond Connect Risk: The strategy may invest in China interbank bond market through connection between the related Mainland and Hong Kong financial infrastructure institutions. These may be subject to regulatory changes, settlement risk and quota limitations. An operational constraint such as a suspension in trading could negatively affect the strategy's ability to achieve its investment objective.

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.

Environmental, Social and Governance (ESG) Investment Approach Risk: The strategy follows an ESG investment approach. This means factors other than financial performance are considered as part of the investment process. This carries the risk that the strategy's performance may be negatively impacted due to restrictions placed on its exposure to certain sectors or types of investments. The approach taken may not reflect the opinions of any particular investor. In addition, in following an ESG investment approach, the strategy is dependent upon information and data from third parties (which may include providers for research reports, screenings, ratings and/or analysis such as index providers and consultants). Such information or data may be incomplete, inaccurate or inconsistent.

The value of investments and the income received can fall as well as rise and investors may not get back the original amount invested.

Past performance is not a guide to future performance.

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