

USING FIXED INCOME FOR RETIREMENT PLANNING



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Fixed income can play a powerful role in retirement planning. We explore how strategic bond strategies can help investors manage volatility, generate income and support long-term financial security.

The search for reliable returns

One of the most important foundations of retirement planning is securing a dependable source of returns. This not only offers the potential for those preparing for retirement to grow their assets, but can also target a steady post-retirement income stream. Bonds can help address this need – their predictable interest payments and contractual structure make them a common choice for anyone either planning for transitioning from work or already enjoying their retirement. Strategic bond funds, such as the one offered by BNY, have the flexibility to invest across global fixed income markets, navigating shifting market conditions while maintaining the focus on dependable long-term income.

KEY CHARACTERISTICS OF BONDS THAT MAKE THEM IDEALLY SUITED FOR RETIREMENT PLANNING

1. **CONTRACTUAL OBLIGATION:** Unlike equities, bonds come with a legal promise to pay regular coupons and return principal at a future maturity date. This predictability is rare in other asset classes.
2. **DEFINED CASH FLOWS:** Coupons and principal payments are typically made at set dates, meaning investors know exactly when and how much they will receive.
3. **LOWER VOLATILITY:** Compared to equities, the prices of high-quality bonds tend to fluctuate less and naturally become anchored to 100 as bonds near maturity, reducing risk when building an asset pool and during retirement itself.
4. **DIVERSIFICATION BENEFITS:** Historically, bond prices have typically moved differently from stock prices, helping smooth periods of volatility in a wider portfolio, although correlations can rise at times (as happened in 2022, for example).
5. **BONDS CAN ALSO PROVIDE GROWTH:** Fixed income can serve as a powerful growth engine, delivering potential for long-term returns through the compounding impact of reinvesting of income, and using strategic allocation to seek out alpha opportunities.

Nevertheless, while bonds are generally considered to be a reliable investment, they are not entirely without risk. When interest rates rise, bond prices usually fall to align yields with market levels. While regular coupon payments often help cushion this impact, sharp and rapid rate increases can lead to negative returns – as seen in 2022, when yields surged from historically low levels after the pandemic. The borrower, known as the issuer of the bond, might also default, failing to pay the interest or return principal or both. Defaults are rare and, typically, the riskier the bond issuer, the higher the yield the investor receives to compensate for this added risk.

One of the most important foundations of retirement planning is securing a dependable source of returns.

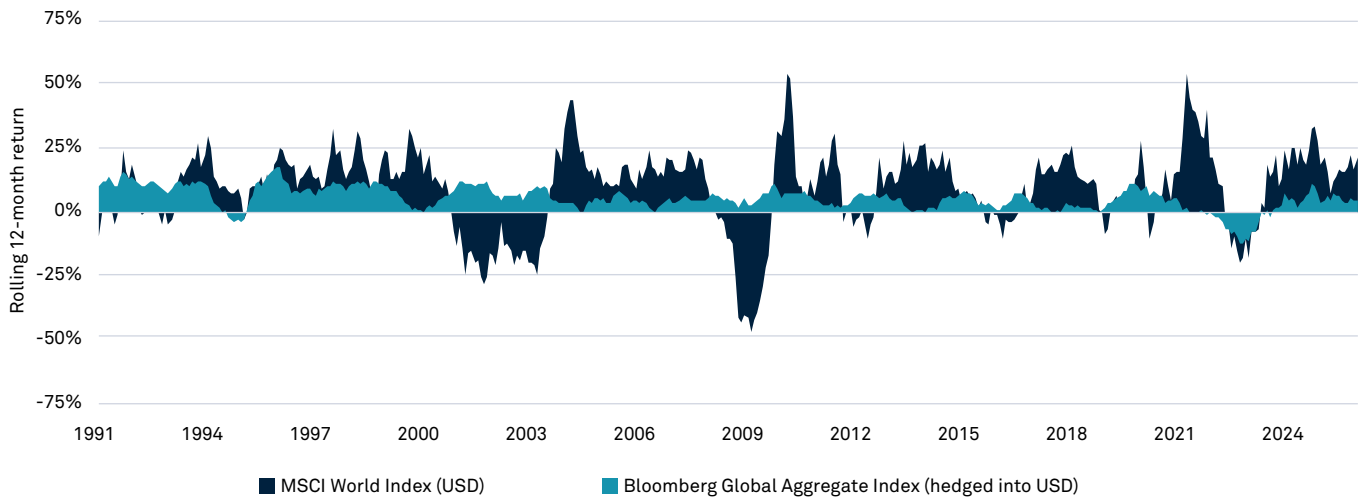


Income-based returns are more predictable

Bond markets have historically offered far lower volatility than equity markets, without suffering the large drawdowns that equity markets have periodically seen (see Figure 1). This is because returns in bonds are primarily generated through regular income payments, in contrast to equity markets, where returns are generally focused on the potential for capital appreciation.

One exception to this was in 2022, when central banks aggressively raised interest rates as they battled to bring inflation under control after the pandemic, driving bond yields upwards. However, as illustrated below, even in the worst environment for fixed income in decades, the broad bond market still only experienced a drawdown roughly half that of the broad equity market.

FIGURE 1: GLOBAL BOND MARKETS HAVE SUFFERED FEWER AND LESS DRAMATIC DRAWDOWNS THAN GLOBAL EQUITIES



Source: Insight and Bloomberg. 12-month rolling returns for MSCI World Index (USD) and Bloomberg US Treasury Index (USD). Data between 31 January 1990 and 31 December 2025.

“BOND MARKETS HAVE HISTORICALLY OFFERED FAR LOWER VOLATILITY THAN EQUITY MARKETS.”

Drawdown risk has been much lower in fixed income markets

Fixed income markets do experience periodic sell-offs (drawdowns), but they tend to be shallow and short-lived for two key reasons:

1) A BOND IS A CONTRACTUAL ASSET

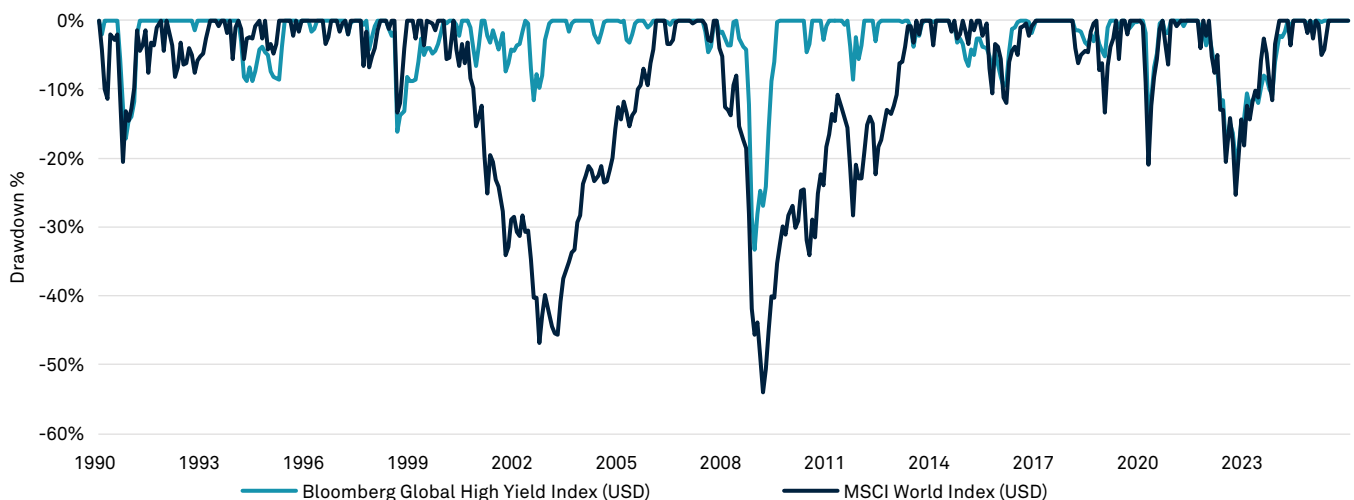
The issuer is contractually obliged to pay a regular rate of interest and, unless the issuer defaults, it repays its full principal at a future date. As bonds generally mature at 100 (of whatever currency in which it is issued), there is a gravitation towards that price over time, so bond prices naturally recover. This is commonly known as the ‘pull to par’.

2) A BOND GENERATES REGULAR INCOME

The income generated in bond markets counterbalances price declines, and this creates natural downside protection as long as yields are sufficiently high and there is a sufficiently long-time horizon.

In Figure 2 we can see these effects in action in the riskier end of the bond market – so-called high-yield bonds. Although global high yield is perceived to be more sensitive to economic fortunes and has generated similar long-term returns to global equity markets, the asset class has generally experienced shallower sell-offs and has recovered more quickly than equities.

FIGURE 2: DESPITE SIMILAR RETURNS, GLOBAL HIGH YIELD HAS GENERALLY HAD SHALLOWER DRAWDOWNS AND FASTER RECOVERIES THAN EQUITIES



Source: Insight and Bloomberg. Data as at 31 December 2025.

Maintaining balance in bonds

When evaluating the value of fixed income investments, it is important for investors to clearly define their objectives and intentionally select strategies that align with their specific needs. Investors should assess which aspects of their overall portfolio requirements fixed income can effectively address.

Typically, fixed income investors seek one or more of the following outcomes from their bond portfolios.

A disciplined approach... may enable investors to harness the distinct characteristics of fixed income to meet their objectives effectively.



A disciplined approach to considering the role of fixed income in a portfolio – whether it is to generate income, returns, offer diversification, or a combination of the three – may enable investors to harness the distinct characteristics of fixed income to meet their objectives effectively.

Retirement investment in practice: how the BNY Strategic Bond Fund can help

Suitability for retirement planning

Within a bucket-based retirement framework, fixed income plays a critical bridging role. It is expected to do more than simply dampen volatility. For clients drawing income, the medium-term bucket must help protect capital, provide a degree of inflation resilience, and support portfolio ‘bouncebackability’ following periods of market stress.

Used effectively, an actively managed fixed income fund can operate as an outsourced fixed income sleeve, sitting between short-term cash holdings and long-term growth assets. Its role is to support income needs in the years immediately ahead, while retaining the flexibility to rebalance dynamically as markets evolve.

We believe strategic bonds funds are especially suited for this role. Unlike traditional bond funds that are constrained by sector or duration mandates, strategic bond strategies can typically 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.

Although they will generally have government bonds or investment-grade credit as a core holding within their portfolios, 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. When aggregated, these incremental returns have the potential to generate meaningful outperformance relative to traditional fixed income benchmarks, which gives strategic bond strategies the potential to compete with higher-risk/higher-return segments of the fixed income universe.

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Supporting behavioural outcomes without sacrificing efficiency

Value bucket based frameworks organise an investment strategy by grouping opportunities into different buckets based on their expected sources of return. This approach can be highly effective as it helps clients visualise where future income is coming from and remain confident during periods of market stress.

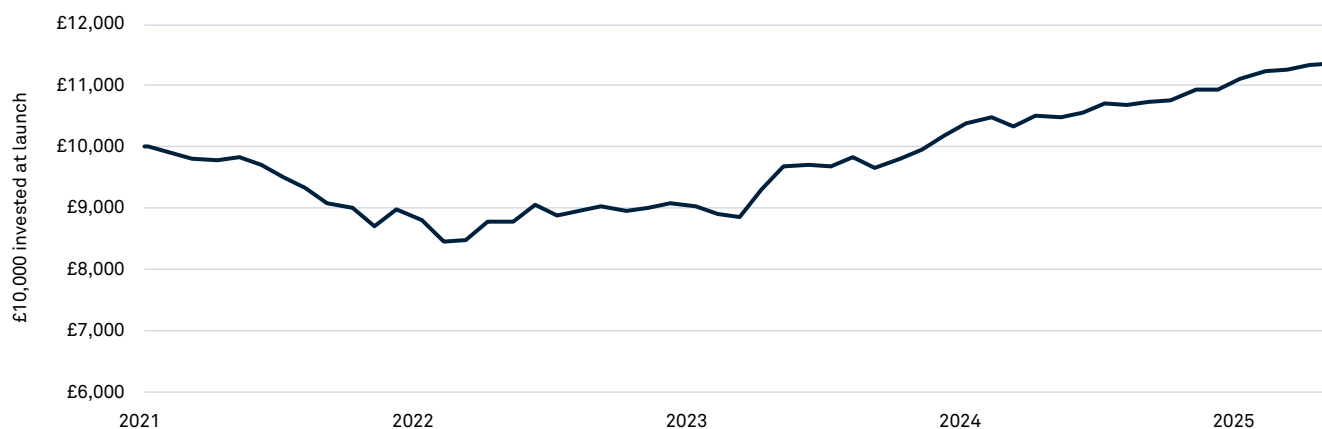
An outsourced fixed income fund allows advisers to retain the behavioural benefits of bucketing while reducing operational complexity and investment inefficiencies.

From the client’s perspective, the fixed income sleeve contributes to the feeling of stability and predictability that sits behind the medium term income bucket. From an investment perspective, it avoids the pitfalls of static bond allocations and one way rebalancing, helping maintain a more resilient overall portfolio. Advisers retain control over how much capital is allocated to cash, fixed income, and growth assets, while benefiting from a professionally managed fixed income allocation.

The BNY Strategic Bond Fund

We believe the BNY Strategic Bond Fund is well placed for this role, offering a flexible, all-in-one vehicle, and providing diversified fixed income exposure that adapts to changing market environments. Launched in August 2021, the Fund seeks to deliver returns through income and capital growth, using a high-conviction, actively managed portfolio built from Insight’s best global credit and global rates ideas. The Fund dynamically allocates across fixed income asset classes globally, including government bonds, investment-grade and high-yield credit, asset-backed securities and emerging-market debt. A £10,000 investment at the Fund’s inception (21 August 2021) would have grown to £11,475 by the end of 2025 (Figure 3), despite this period being one of the most challenging periods for fixed income investors in decades.

FIGURE 3: BNY STRATEGIC BOND FUND – £10,000 INVESTED AT LAUNCH (21 AUGUST 2021)



Source: Insight and Bloomberg. Data as at 31 December 2025. Returns are net of fees. Illustrative example only. Based on Accumulation (U) share class of BNY Mellon Strategic Bond Fund, net of applicable UK tax and charges. All figures are in GBP terms.

Compounding or income: pick the share class that suits your needs

Most fixed income funds are sold with two different share classes:

ACCUMULATION SHARE CLASS:

Reinvests income to compound returns over time.

INCOME SHARE CLASS:

Distributes regular income (typically on a quarterly basis) which can be used in retirement.

When saving for retirement, investors often use accumulation share classes to reinvest income efficiently, allowing returns to compound over time. Once retirement begins, these can be switched to income share classes, which provide regular payouts to help meet living expenses.

Compounding is the process of reinvesting investment earnings to generate additional returns over time. 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 such as equities, especially when interest rates remain high.

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Bond markets provide greater scope for active management

Many investors believe that active managers struggle to outperform or even match their benchmarks and extrapolate this idea across all investment assets. Research, repeated over decades, suggests that this is certainly true of many active equity strategies.

However, this is not generally true in fixed income. Data from Morningstar shows that in some categories, active bond managers have outperformed passive peers over certain periods. For example, over the last 15 years, active US corporate bond managers have outperformed their passive counterparts by an average of 20 basis points per year, while active US high-yield managers have outperformed their passive counterparts by an average of 40 basis points per year.¹ In contrast, the data shows that active US large blend equities funds underperformed their passive counterparts by an average of 1.7% per annum over the same period.

Bond markets are far less efficient and transparent than equity markets, presenting inefficiencies that can be exploited by active managers. The rise of passive investment has, if anything, exacerbated these inefficiencies in bond markets.

Active investors have a multitude of strategies at their disposal to enhance fixed income returns. By utilising duration and yield curve strategies, engaging in meticulous security selection, capturing new issue premia, exploiting market fragmentation, and employing sector strategies, they can navigate the complexities of fixed income markets and seek to add incremental return. Managing credit beta and identifying relative-value opportunities provide further opportunities to optimise portfolios.

We believe that when executed with precision, these approaches can significantly enhance performance in fixed income investments, whether the goal is to maximise returns or ensure steady cash flows. When choosing an active manager, we urge investors to check on how consistent managers are in beating the benchmark. If a manager can show a higher level of consistency relative to others, this is likely to be a sign of a more robust investment process and one with a judicious approach to risk-taking.

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For more information, please contact your local Sales representative or visit our dedicated fixed income webpage:
<https://www.bny.com/investments/uk/en/adviser/capabilities/fixed-income/fixed-income.html>

¹ US Active/Passive Barometer Report: Mid-Year 2025 | Morningstar – Midyear 2025 edition (returns used are asset weighted).

BNY Strategic Bond Fund

INVESTMENT OBJECTIVE

To generate a return through a combination of income and capital returns, whilst taking environmental, social and governance (“ESG”) factors into account.

PERFORMANCE BENCHMARK

The Fund will measure its performance against the UK Investment Association Sterling Strategic Bond Sector as a comparator benchmark (the “Benchmark”). The Fund will use the Benchmark as an appropriate comparator because it represents a broad range of similar Sterling denominated bond funds that invest in corporate bonds.

The Fund is actively managed, which means the Investment Manager has discretion over the selection of investments, subject to the investment objective and policies as disclosed in the Prospectus.

12-MONTH RETURNS

Period	Dec 2024 to Dec 2025	Dec 2023 to Dec 2024	Dec 2022 to Dec 2023	Dec 2021 to Dec 2022	Dec 2020 to Dec 2021
Fund	8.44	7.99	10.10	-10.68	-
Performance Benchmark	7.23	4.37	7.89	-11.97	-

Source: Lipper as at 31 December 2025.

Fund performance for the Institutional Shares W (Accumulation) calculated as total return, based on net asset value, including reinvested income net of UK tax and charges.

All figures are in GBP terms.

On 2 December 2025 the Fund’s name changed from the Responsible Horizons Strategic Bond Fund to the BNY Strategic Bond Fund.

PAST PERFORMANCE IS NOT A GUIDE TO FUTURE PERFORMANCE.

THE VALUE OF INVESTMENTS AND THE INCOME RECEIVED CAN FALL AS WELL AS RISE AND INVESTORS MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

Key investment risks

OBJECTIVE/PERFORMANCE RISK: There is no guarantee that the Fund will achieve its objectives.

CURRENCY RISK: This Fund invests in international markets which means it is exposed to changes in currency rates which could affect the value of the Fund.

GEOGRAPHIC CONCENTRATION RISK: Where the Fund invests significantly in a single market, this may have a material impact on the value of the Fund.

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 Fund 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 Fund.

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 Fund.

CREDIT RISK: The issuer of a security held by the Fund may not pay income or repay capital to the Fund when due.

EMERGING MARKETS RISK: Emerging Markets have additional risks due to less-developed market practices.

VOLCKER RULE RISK: The Bank of New York Mellon Corporation or one of its affiliates (“BNYM”) has invested in the Fund. As a result of restrictions under the “Volcker Rule,” which has been adopted by U.S. Regulators, BNYM must reduce its shareholding percentage so that it constitutes less than 25% of the Fund within, generally, three years of the Fund’s establishment (which starts when the Fund’s manager begins making investments for the Fund). Risks may include: BNYM may initially own a proportionately larger percentage of the Fund, and any mandatory reductions may increase Fund portfolio turnover rates, resulting in increased costs, expenses and taxes. Details of BNYM’s investment in the Fund are available upon request.

COCOS RISK: Contingent Convertible Securities (CoCos) 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 Fund places restrictions on its exposure to certain sectors or types of investments to reflect its responsible investing approach. The Fund’s performance may be negatively impacted due to these restrictions in comparison to funds which do not have these restrictions. The Fund 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 Fund to financial loss.

IMPORTANT INFORMATION

For Professional Clients only.

This is a financial promotion.

Please refer to the prospectus or KIID where applicable and other fund documents for a full list of risks and before making any investment decisions. Documents are available in English and in selected local languages where the fund is registered. Go to bny.com/investments.

Any views and opinions are not investment advice or a research recommendation.

BNY is the corporate brand 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.

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