BUSINESS INSIDER

www.businessinsider.com September 11, 2020

PREMIUM / HOME MARKETS

A $1.3 billion fund manager explains how investors can limit their losses during the stock market sell-off with bonds — and shares 6 sectors where he sees the best opportunities now

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- **James DiChiaro, co-manager of the $1.3 billion BNY Mellon Core Plus fund, believes that investors need income and ballast in their portfolios now more than ever.**

- **The fund manager has found opportunities in high-quality intermediate-term US corporate bonds.**

- **He also shares six sectors where idiosyncratic risks and bond selection have generated alpha.**

BNY MELLON INVESTMENT MANAGEMENT

James DiChiaro, senior portfolio manager of BNY Mellon Core Plus fund.

For any investor who thinks fixed income is boring, James DiChiaro's first foray into the bond market is anything but.

It was in 1998 when DiChiaro, who was fresh out of college, took up a job supporting the mortgage-backed securities pass-through desk at Merrill Lynch.

"The volume was overwhelming, 1 to 200 trades in a day," DiChiaro recalled. "And it literally got to the point where I'm sitting there jamming trade tickets into the system only to have the head trader just throwing them at the back of my head in piles and I'm picking them up from the floor."

DiChiaro, who now co-manages the $1.3 billion BNY Mellon Core Plus fund (DCPIX), jokingly characterized that difficult experience as his "hazing into the financial markets."

His takeaway from that challenging period was to always find the positive when the odds are stacked against him. And that mindset has prepared him well for the market environment today, where 10-year Treasury yields are near historic lows while equity markets continue to reach record highs.

"The point of having fixed income in any investor's portfolio, effectively, is to provide the income and ballast for a hedge against some of the equity volatility that you may have in your portfolio," he said, noting that 10-year Treasury notes rallied by a few basis points and high yield spreads widened by 5 to 7 basis points while tech stocks were experiencing wild sell-offs at the end of last week.

However, with interest rates near zero and Fed Chairman Jerome Powell saying he is "not even thinking about raising rates," investors are left with either "inflationary pressures" or "a dearth of yield."

Against such a backdrop, DiChiaro believes high-quality intermediate US corporate bonds are the way to capture yields without taking excessive risks.

"The long bonds or 30-year Treasuries right now are paying about 140 basis points on average, and you can buy corporate credit that also paid a 140 basis point spread on it," he said. "In that scenario, you'd have a long credit bond with a coupon of 2.8%, half of that coupon is derived from interest rate exposure, the other half is credit exposure."

"Now you have explicit policy support for corporate credit, which should also benefit the long end as well," he said, referring to the Fed's stimulus purchase of corporate bonds and ETFs.

Sectors bets and bond selection

Within US corporate credits, DiChiaro said he favors the tech, media, and communication sectors given the recent increases in tech spending related to the spike in work-from-home employees.

But the manager also believes there are attractive security selection opportunities within sectors that are perceived as being challenged in this socially distant environment such as the leisure, restaurant, and casino sectors.

"Although these technology-related sectors seem like an obvious 'add,' there are bad names in good sectors," he said. "Conversely, while leisure, restaurants, and casinos seem like areas one might want to avoid, we are highlighting that there are attractive security selection opportunities within those sectors and you are missing out if you avoid them altogether."

Specific bond selection within sectors is likely to help investors generate the bulk of their market-beating returns through year-end, he added.

The BNY Mellon Core Plus fund, which DiChiaro co-manages with Gautam Khanna, owns $9 million of 3.6% Oracle bonds due April 1, 2040, $2.9 million of 4.05% Amazon bonds maturing August 22, 2047, $6.8 million of 2.65% Apple bonds due May 11, 2050, and $1.4 million of 5.38% Charter Communications bonds due May 1, 2047, according to its portfolio holdings fact sheet.

The fund, which also owns agency mortgage-backed securities, asset-backed securities, and emerging market bonds, has outperformed its benchmark index and category peers year-to-date, returning 7.17%, according to Morningstar.

As the November elections loom large, investors should expect to see a volatile market in the next two months, DiChiaro said.

But he does not recommend investors sell longer-dated fixed income holdings and go into shorter-dated money market funds.

"We saw some of that happen back in the March-to-April timeframe and I think many of those investors may have missed that rebound that happened in the fixed income market," he said. "So always remember the fixed income markets are a hedge against your equity exposures."

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BNY Mellon Core Plus Fund
Class A **DCPAX** Class C **DCPCX** Class I **DCPIX** Class Y **DCPYX**

Average Annual Total Returns (9/30/20)

Share Class/Inception Date	YTD	3 M	1 Yr	3 Yr	5 Yr	Inception
Class A (NAV) 02/02/18	6.63%	1.55%	7.23%	5.64%	5.15%	4.50%
Class A (4.50% max. load)	1.86%	-3.00%	2.44%	4.02%	4.18%	4.02%
Class I (NAV) 02/02/18	6.93%	1.71%	7.59%	5.91%	5.31%	4.59%
Class Y (NAV) 12/02/10	6.96%	1.63%	7.64%	5.91%	5.31%	4.59%
Bloomberg Barclays U.S. Aggregate Bond Index	6.79%	0.62%	6.98%	5.24%	4.18%	

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. Performance for periods less than 1 year are not annualized. Go to im.bnymellon.com for the fund's most recent month-end returns. The net expense ratio(s) reflect a contractual expense reduction agreement through 9/1/2021, without which, the Returns would have been lower. Total Expense Ratios: Class A 0.77%, Class I 0.50%, Class Y 0.43%. Net Expense Ratios: Class A 0.70%, Class I 0.45%, Class Y 0.43%. Not all classes of shares may be available to all investors or through all broker-dealer platforms. Other share classes are subject to different fees and expenses and would have achieved different results.

BNY Mellon Core Plus Fund ("Fund") commenced operations after the assets of a predecessor mutual fund reorganized into the fund on 2/2/18. Performance for Class Y is the performance from the predecessor fund. The total return performance figures for Class A, C and I shares of the Fund represent the performance of the Fund's Class Y shares for periods prior to 2/2/18, the inception date for Class A, C and I shares, and the performance of Class A, C and I shares, from that inception date. Performance reflects the applicable class' Distribution/servicing fees since the inception date. Investors should consider, when deciding whether to purchase a particular class of shares, the investment amount, class restrictions, anticipated holding period and other relevant factors. Additionally, on 10/19/2018 the Fund received the merged assets of Dreyfus Intermediate Term Income Fund, the performance of which is not reflected above.

Sector Distribution[1]

Inv. Grade Corporate	43.50%
Treasury	20.97%
MBS	17.36%
HY Corp	6.10%
ABS	5.83%
EMD	3.85%
CMBS	1.50%
Government Related	1.43%
Cash & Equiv	-0.54%

Top Ten Holdings[1]

U.S. Treasury, 1.8%, 07/31/2021	5.09%
U.S. Treasury, 3.1%, 02/15/2042	3.94%
U.S. Treasury, 0.6%, 08/15/2030	2.60%
U.S. Treasury, 1.8%, 12/31/2026	1.77%
U.S. Treasury, 0.3%, 06/30/2025	1.69%
U.S. Treasury, 0.5%, 06/30/2027	1.68%
U.S. Treasury, 0.6%, 05/15/2030	1.46%
FNMA, 3.5%, 05/01/2047	1.09%
FNMA, 2%, 08/01/2050	1.00%
GNMA, 3%, 02/01/2046	0.89%

The holdings listed should not be considered recommendations to buy or sell a security. Large concentrations can increase share price volatility.

[1] Portfolio composition is as of 09/30/2020 and is subject to change at any time.

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All investments involve risk including loss of principal. Certain investments involve greater or unique risks that should be considered along with the objectives, fees, and expenses before investing.

No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

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The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measure the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and nonagency). Investors cannot invest directly in any index.

Recent market risks include pandemic risks related to COVID-19. The effects of COVID-19 have contributed to increased volatility in global markets and will likely affect certain countries, companies, industries and market sectors more dramatically than others. To the extent the fund may overweight its investments in certain countries, companies, industries or market sectors, such positions will increase the fund's exposure to risk of loss from adverse developments affecting those countries, companies, industries or sectors.

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MARK-150690-2020-10-28