Future 24

BNY Mellon

Investment Conference 2019

Future 2021

Graham Rainbow, European Senior Loan Portfolio Manager
and Ross Curran, European High Yield Portfolio Manager

Alcentra

Key themes for 2021

Future 24

We believe that over the next 12-24 months the market will become more discriminating on the basis of credit risk:

- **The end of QE**
  - Recent rise in benchmark rates and increase in credit spread volatility likely to continue
  - Widening spreads will cause investors to move to up in credit quality, reducing demand for lower-rated, fixed rate, subordinated corporate paper
  - Ratings downgrades driven by an economic slowdown will increase supply of lower rated corporates, further intensifying the supply-demand imbalance
- **Geopolitical risk and challenges to growth and business models**
  - Continuing political upheaval in Europe (e.g. Brexit) and re-emergence of “risk-off” threat across asset classes
  - Further trade war rhetoric impacting certain industries more than others while depressing economic growth
- **Technological and social changes giving rise to credit risk (and opportunities)**
  - Certain sectors and issuers will be impacted by known and, as yet, unknown trends in technology and consumer behaviour

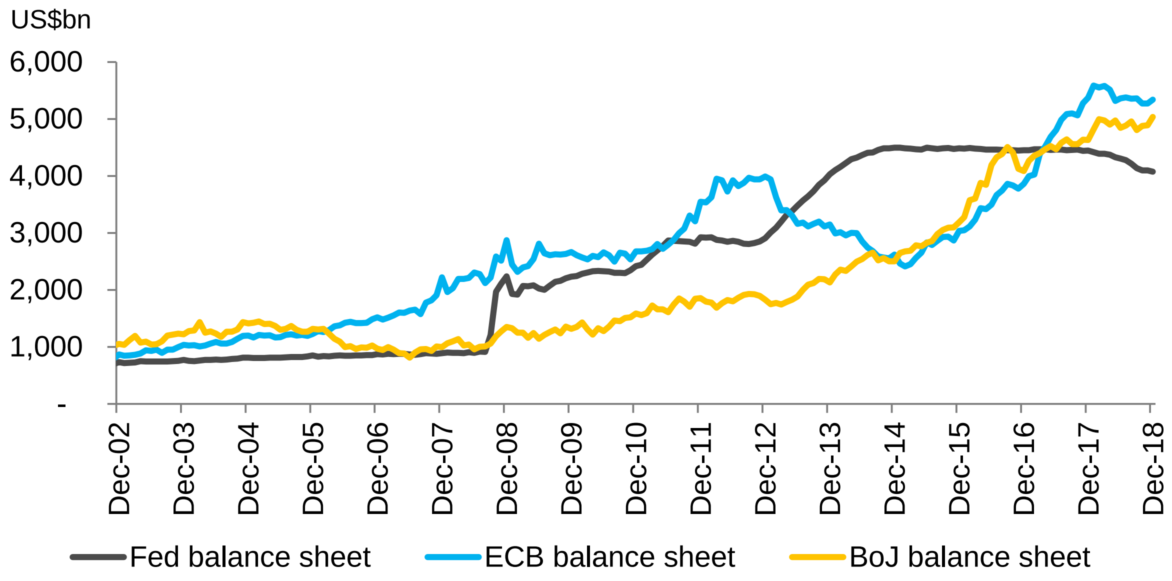
We believe Alcentra is well placed to manage these growing challenges

Source: Alcentra, as at 7 January 2019.

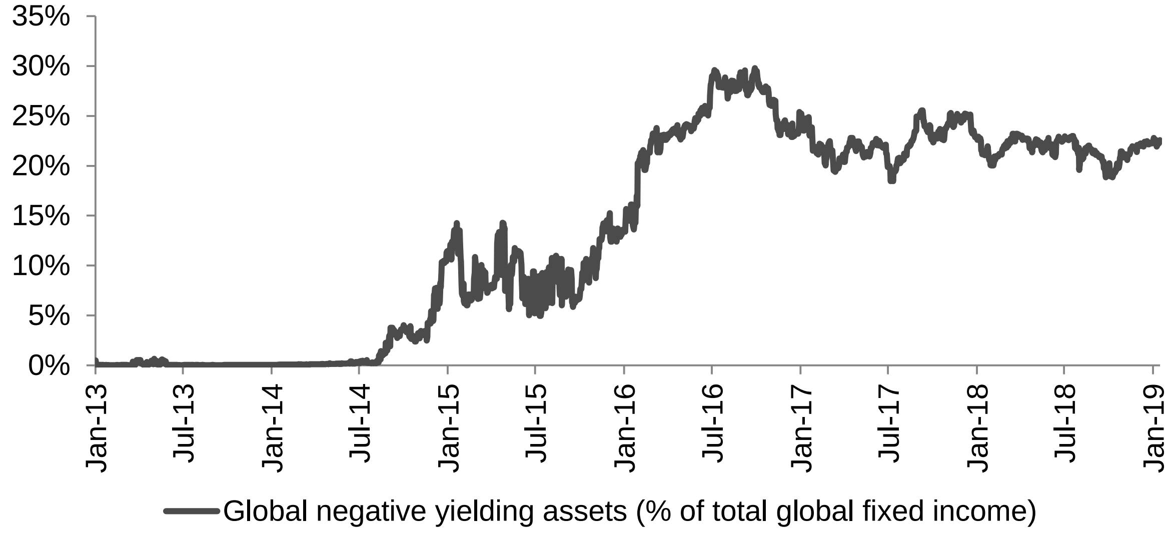
Market themes

Policy normalisation resulting in rising interest rates

Dramatic central bank balance sheet growth…[1]



…has driven global fixed income yields lower[2]



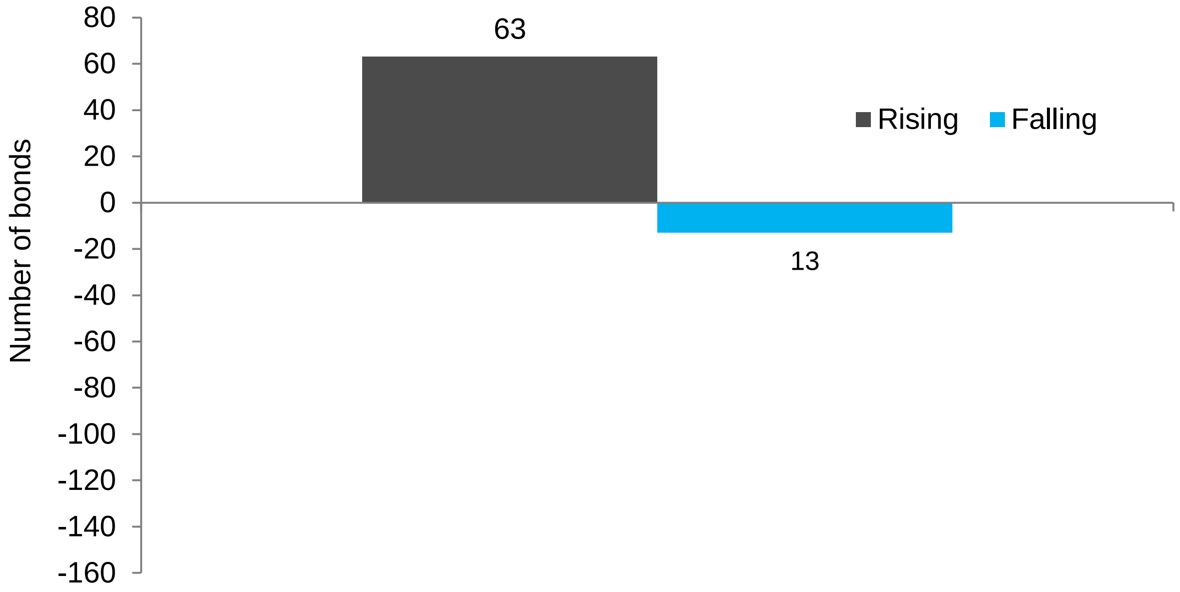
- Ultra loose monetary policy since the Financial Crisis has had a significant impact on global fixed income asset valuations
- Central banks have signalled intentions to tighten policy further over the coming years
- FRNs offer attractive income and near-zero duration to help protect against normalising monetary policy

Source: 1. Bloomberg, 31 December 2018. 2. Bank of America Merrill Lynch, 15 January 2019

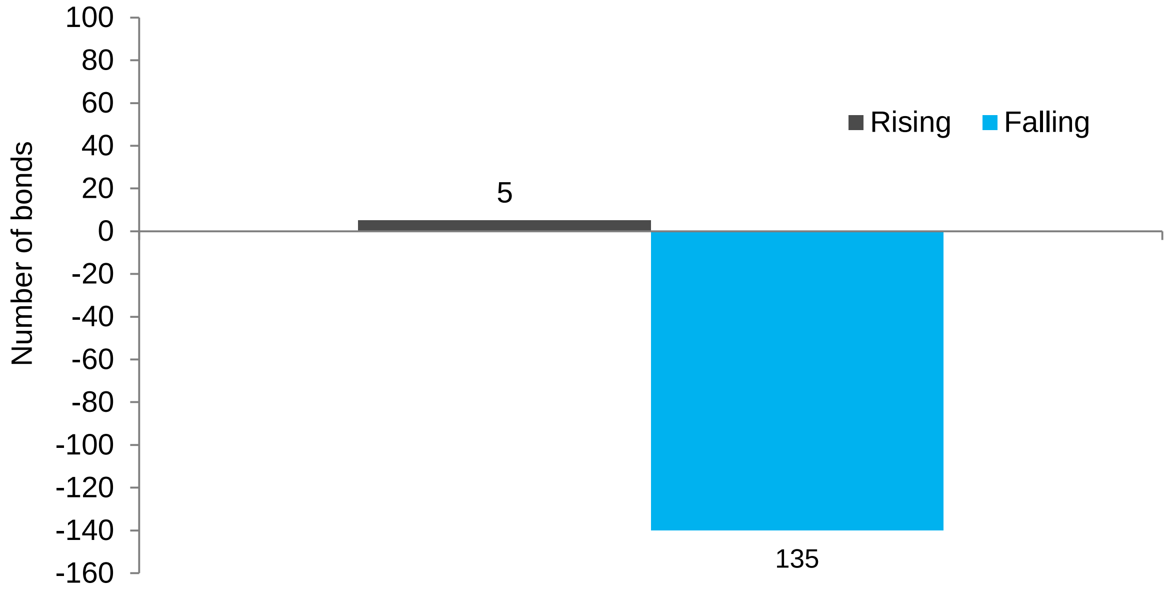
Increasing market volatility

- The gradual central bank transition from quantitative easing towards quantitative tightening began impacting the European credit markets during the second half of 2018, resulting in increased volatility and nervousness within European credit
  - Whereas 2017 provided support for a number of struggling deals, 2018 completely reversed the picture with 135 high yield (HY) bonds trading down 10 points or more

European HY bonds moving + / - 10 pts: 2017



European HY bonds moving + / - 10 pts: 2018



- The impact of decliners is fairly well distributed across sectors and jurisdictions
- We believe the common denominator is instead *recently financed deals, priced at record low yields, unable to meet very ambitious market expectations*

Source: Alcentra and Bloomberg, 4 January 2019. Data includes HY bonds rated BB+ or below by any rating agency and defined by Bloomberg with a European “country of risk”.

European loan market – lower exposure to Italy and banking sector vs high yield

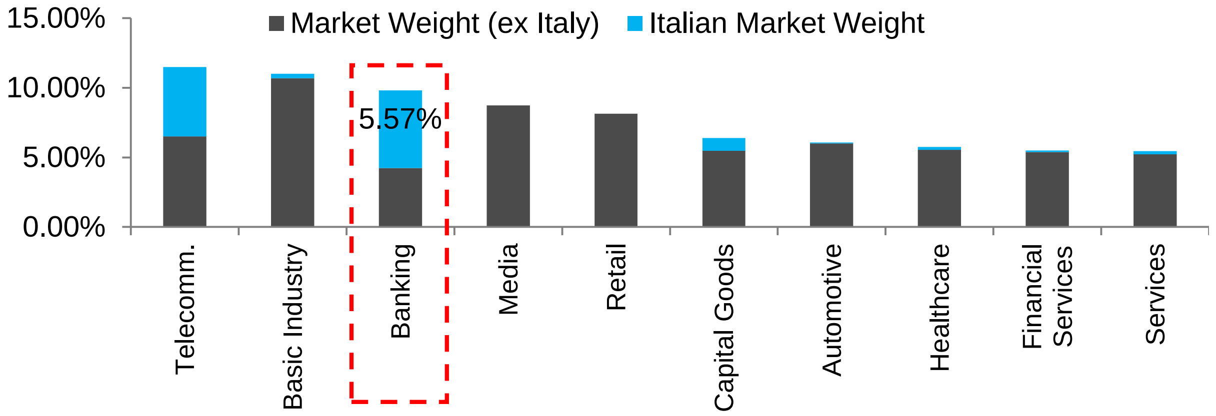
European High Yield index

Top 5 countries[1]	%
1. Italy	**14.36**
2. UK	14.17
3. USA	13.19
4. France	11.94
5. Germany	10.27

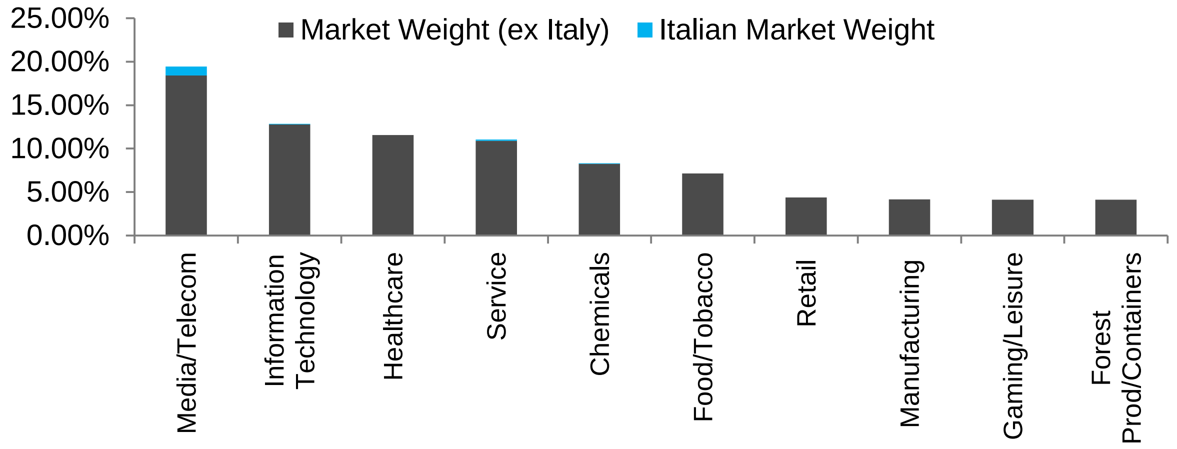
Credit Suisse Western European Leveraged Loan Index

Top 5 countries[2]	%
1. UK	24.86
2. France	15.82
3. Netherlands	14.31
4. Germany	10.83
5. USA	10.61
13. Italy	**1.18**

Top 10 industries[1]



Top 10 industries[2]



Source: 1. As of 1 March 2019, ICE BAML European Currency High Yield Index (HP00). 2. As of 1 March 2019, Credit Suisse Western European Leveraged Loan Index.

Default risk

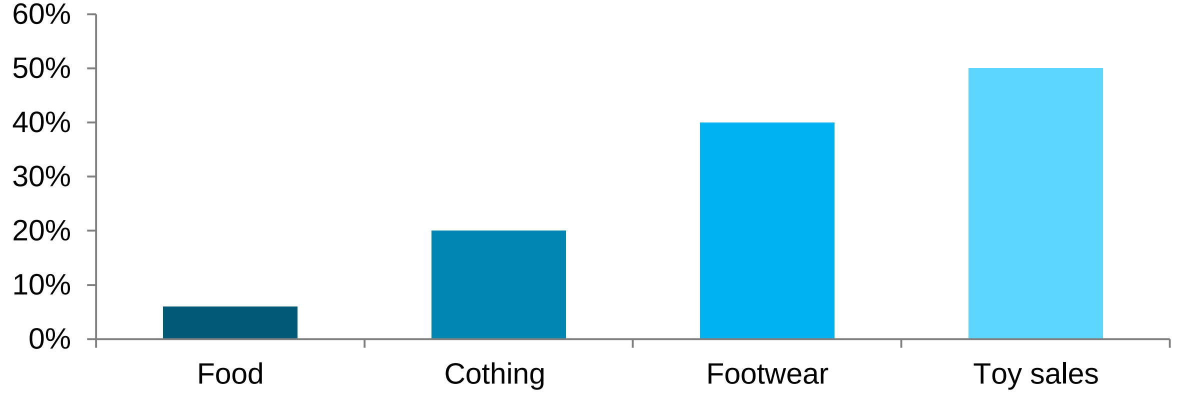
Technology

Digitalisation	A negative for mainly brick-and-mortar retailers (Walmart, ToysRUs, House of Fraser, Debenhams, New Look), there has been a change in the retail and marketing landscape away from high street and towards online and mobile sale
Increased data analytics	Increase of data analytics and corresponding software/tools, as enquiries and transaction data are increasingly collected electronically.
Cloud technology	A shift from traditional IT infrastructure towards "NoOps", or an IT environment so automated and abstracted from the underlying infrastructure that there is less and less need to manage software in-house.
Cybersecurity	Any breaches of to cybersecurity are now a big risk to governments and business, as such this has become a big focus for end users

Who could benefit?

- Companies linked to e-commerce
  (our investments Paysafe, Worldpay, Nexi)
- Companies using data analytics
  (our investments Genesys, Webhelp, ZPG)
- Data and Cybersecurity, such as positive for Idemia, Avast, McAffee, Exclusive Group

% of segment purchases made online[1]



Source: 1. Office for National Statistics, as at January 2019.

Telecommunications

Future 24

5G	A higher spend in the 5G spectrum
Fibre	With government initiatives such as fibre to the home (FTTH) being implemented, and the capital expenditure associated with this
Fixed and mobile markets	The convergence / consolidation between fixed (cable and telecommunications) and mobile (market dependant)

Key unknowns	
Data usage	How will 5G be implemented, and will telecommunication companies be able to monetise data better than with 3G and 4G?
5G vs fibre	What will the implications of 5G be on fibre? If 5G can provide several GB of download speed via mobile, this could reduce the need for fibre to the home, which in turn could effect government policy.
Changing landscape	How will the balance of power fall between Telcos and Netco, and who will reap the benefits?
Regulation	Changes in regulatory approach have had significant impacts on sector strategy and profitability in the past. The EU Electronic Communications Code leaves a lot of scope for national governments to drive policy in several ways, either promoting continued price competition, or being more investment (return) friendly

Source: Alcentra

Automobiles

Electrified	An increase in the battery powered vehicle market
Autonomous	Driverless cars, and their approach to the market
Ride sharing	The future of car ownership, ride hailing and shared journeys
Connected	Communication between cars and between occupants and the outside world
Updates	Short term car leases/repurchase agreement

Source: Alcentra

Environmental, social and governance (ESG)

Alcentra has always taken ESG seriously, and it has always formed part of our fundamental credit analysis.

ESG

- Implemented in every stage of credit analysis
- UNPRI Signatory
- The Alcentra ESG committee
- Internal ESG ratings for each investment

Signatory of:

PRI | Principles for Responsible Investment

- A UNPRI signatory since June 2018.

Which industries will ESG increasingly impact?

Automotive

Healthcare

FMCG

Heavy industrials

Food & beverage

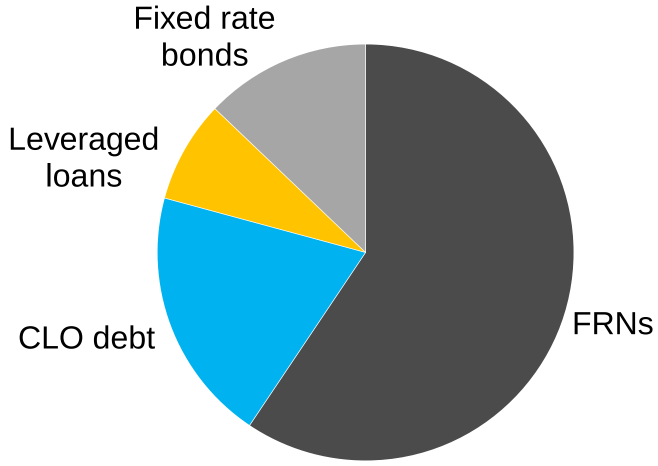
Source: Alcentra

Opportunities in floating rate credit

High yield floating rate opportunity

Key strategy attributes
• Targets EURIBOR+3-4% return
• Daily liquidity
• UCITS eligible assets
• Floating rate, secured assets
• Low duration

Typical asset class exposure



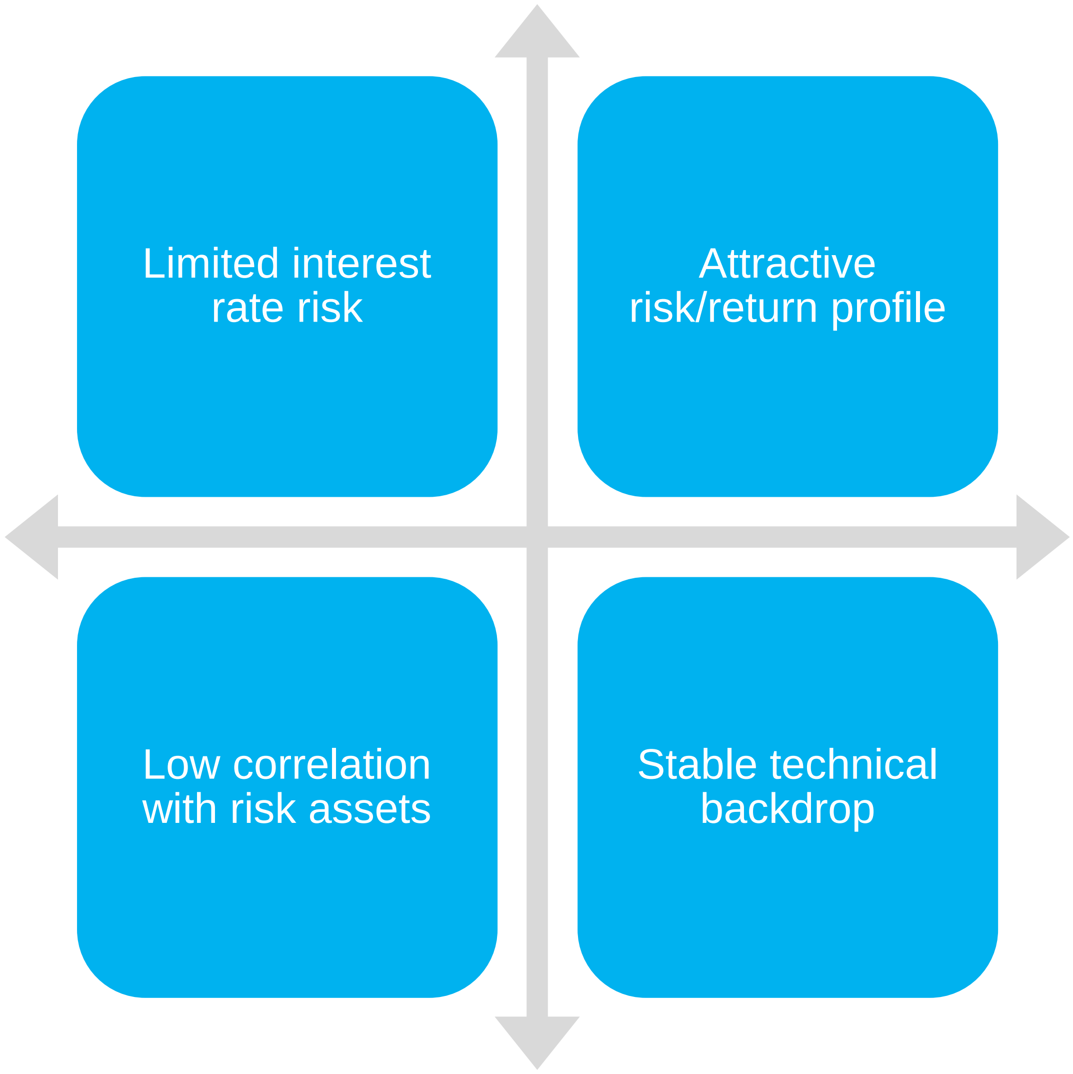
Market opportunity[1]			
Global high yield bonds	**Global high yield FRNs**	**CLO debt**	**Euro leveraged loans**
~US$2trn market	~US$40bn market	~US$650bn market	~US$280bn market
17% senior secured	80% senior secured	95% senior secured	98% secured

1. Data as of 31 December 2018; Source Bank of America Merrill Lynch, Morgan Stanley Research and Alcentra.

High yield floating rate opportunity

- Low duration
- Protection from rising rates

- Low correlation to long duration fixed income



- Targets a return of EURIBOR+3%-4% with comparatively low volatility

- Strong demand
- Growing asset classes

Source: Alcentra

Main differences between asset classes in the investment universe

Floating rate notes retain many of the positive features of both the secured loan and high yield markets in a UCITS-compliant format

	High yield bonds	Floating rate notes	Secured loans	CLOs
Issued by	Holding company	Holding company	Operating company	Holding company
Security	Secured or unsecured	Typically secured	Secured	Secured
Term	5 to 10 years	5 to 8 years	5 to 8 years	5 to 8 years
Interest	Fixed rate	Floating rate, EURIBOR + margin	Floating rate, EURIBOR + margin	Floating rate, EURIBOR + margin
Duration	Medium/long	Low	Low	Low
Covenants	Incurrence covenants	Incurrence covenants	Incurrence covenants / some maintenance covenants	Maintenance covenants in the form of overcollateralisation tests
Information	Public quarterly reporting	Public quarterly reporting	Private monthly and public quarterly reporting	Private monthly reporting
Settlement	T+2	T+2	T+10	T+2
UCIT-compliant	Yes	Yes	Limited	Yes

Source: Alcentra

High yield floating rate notes have outperformed in periods of rising rates

Performance in periods of rising rates

Rising rate environment		Total return						
Date	10-year UST change in yield	European government bonds[1]	US government bonds[1]	European investment grade[1]	US investment grade[1]	High yield FRN[1]	Global High yield bonds[1]	European senior loans[2]
May ‘13 – Sept ’13	+ 137 bps	-3.5%	-5.3%	-2.1%	-6.5%	**+1.4%**	**-2.4%**	**+1.9%**
Jan ‘15 – Jun ’15	+ 84 bps	-4.0%	-3.8%	-2.3%	-3.7%	**+3.0%**	**+3.3%**	**+3.3%**
Jul ‘16 – Dec ’16	+ 124 bps	-3.7%	-5.9%	-0.7%	-3.9%	**+5.5%**	**+4.9%**	**+3.6%**
	Average:	**-3.7%**	**-5.0 %**	**-1.7%**	**-4.7%**	**+3.3%**	**+2.0%**	**+2.9%**

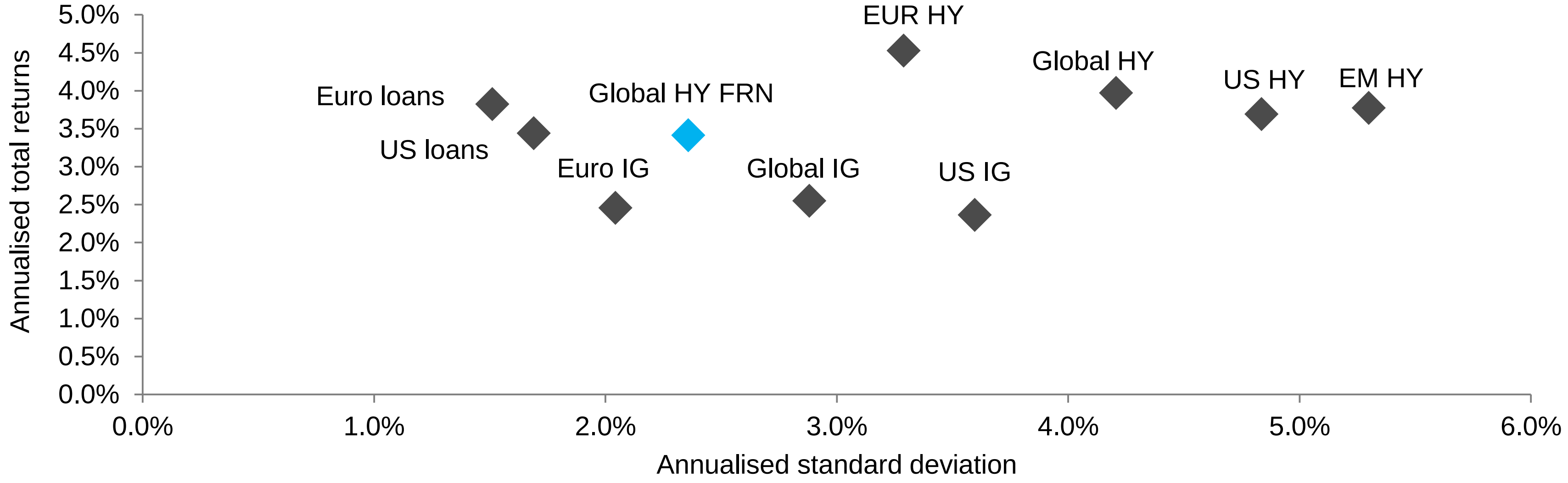
Shorter duration fixed income asset classes

Source: 1. Bank of America Merrill Lynch, 31 July 2018; European government bonds = BAML European Government Index, US government bonds = BAML US Treasury Index, European investment grade = BAML Euro Corporate Index, US investment grade = BAML US Corporate Index, High yield FRN = BAML Global Floating Rate High Yield Index, Global High Yield Bonds = BAML Global High Yield Constrained Index. 2. Credit Suisse, 31 July 2018. European senior loans = Credit Suisse Western European Leveraged Loan Index. Returns calculated in local currencies.

Long term volatility aligned with stable asset classes

- Global HY FRN market has exhibited low long term volatility aligned with stable fixed income asset classes

Annualised risk/return[1]



	EM HY	Global HY	Global IG	Global HY FRN	US loans	Euro loans
1 year vol	3.1%	3.0%	2.1%	**2.4%**	1.7%	2.3%
3 year vol	4.1%	4.4%	2.7%	**2.7%**	1.8%	1.8%
5 year vol	5.2%	4.3%	3.4%	**2.5%**	1.8%	1.6%

Lower return volatility

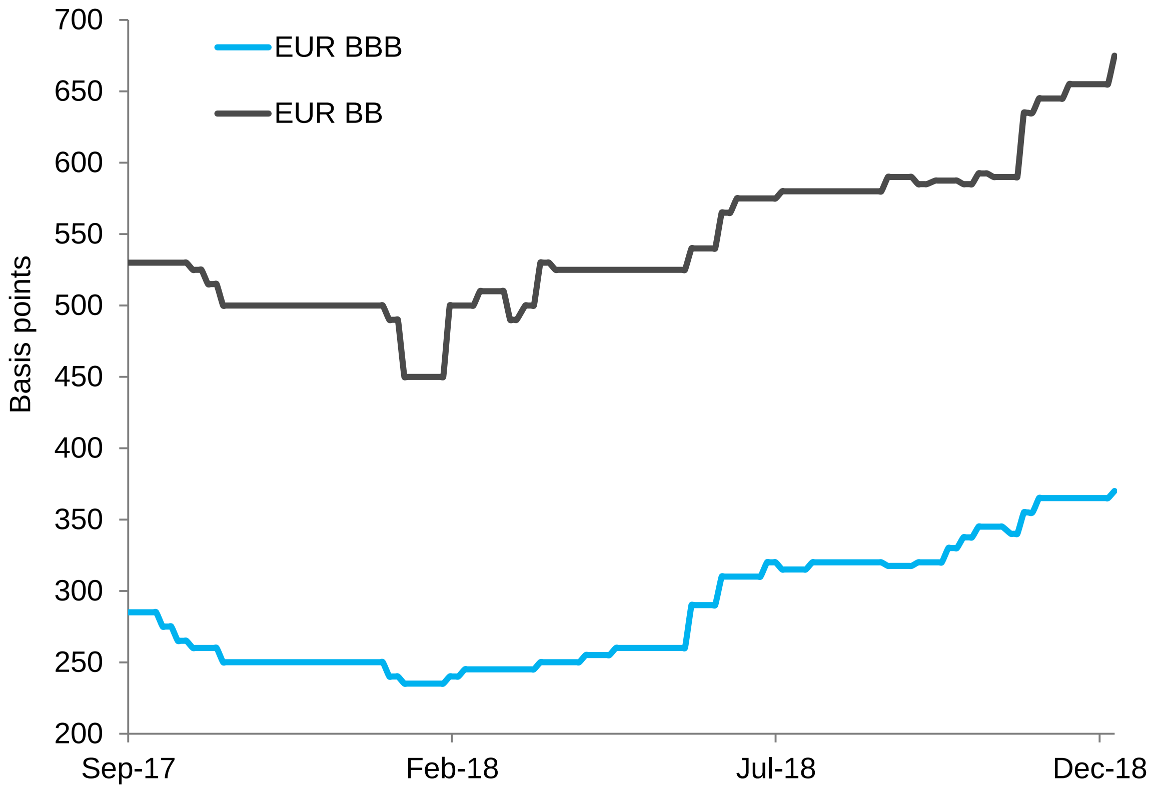
Source: Alcentra. 1. Data from May 2013 to December 2018. EUR HY = BAML European Currency High Yield Index, US HY = BAML US High Yield Index, Global HY = BAML Global High Yield Constrained Index; Euro IG = BAML Euro Corporate Index; US IG = BAML US Corporate Index, EM HY = BAML HY US EM Corporate Plus Index; US IG = BAML US Corporate Index; Euro IG = BAML EUR Corporate Index, Global HY FRN = BAML Global Floating Rate HY Index; Euro loans = CS Western European Loan Index, All Denominations, US loans = CS US Leveraged Loan Index. Returns calculated in local currencies.

CLO investment opportunity: Market overview

Average 2.0 CLO[1] subordination – Europe

	Asset subordination[3]	CLO yield over EURIBOR[3]
AAA	39.0%	103 bps
AA	29.0%	190 bps
A	22.5%	255 bps
BBB	15.5%	370 bps
BB	10.5%	675 bps
B	7.5%	875 bps

BB and BBB 2.0 CLO new issue yield over EURIBOR – Europe[2]



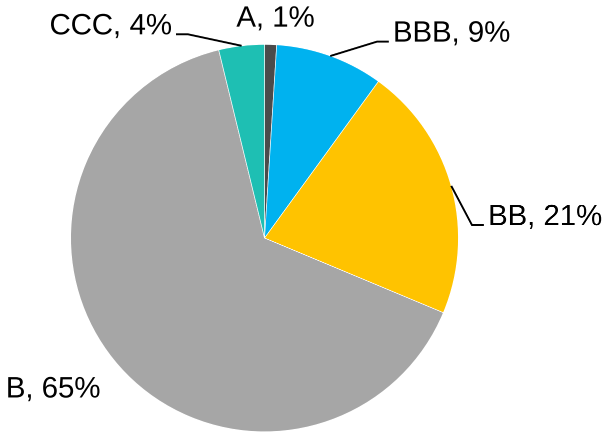
1. 2.0 CLO represents CLOs issued after the credit crisis; 2. JPMorgan New Issue spread data as of 31 December 2018; 3. Alcentra as of 31 December 2018.

Alcentra Floating Rate Credit Strategy

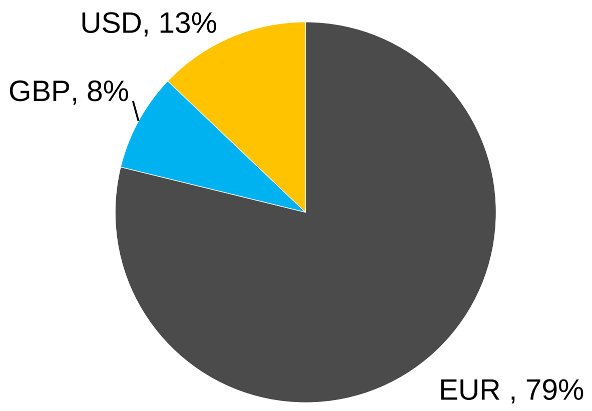
Model portfolio

Investment statistics	
Number of issuers	100
Average yield (€, swap adjusted)	5.2%
OAS	551bps
Duration (years)	0.7
Current yield (€)	5.1%
Average rating	B+/BB-

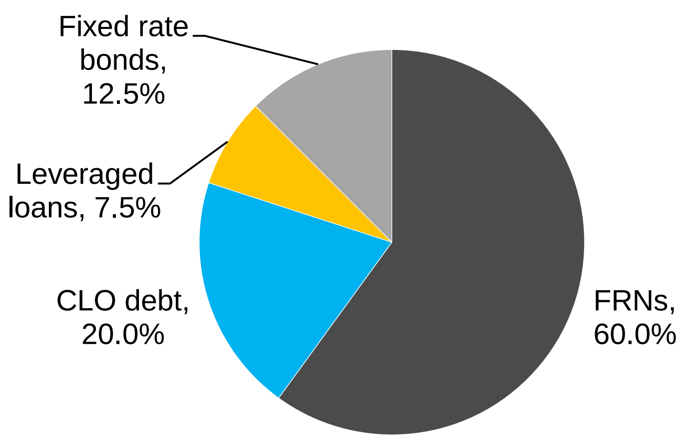
Credit quality exposure



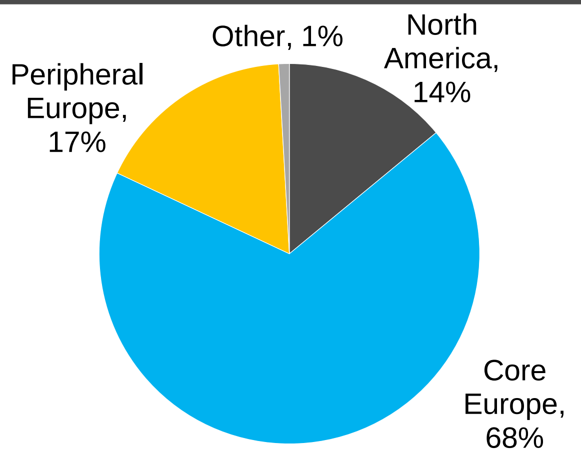
Currency exposure



Asset class exposure



Regional exposure



Source: Alcentra and Bloomberg as at December 2018.

Alcentra Floating Rate Credit Strategy

Snapshot

Investment objective	Targets returns of EURIBOR + 3% - 4%
Investable universe	Intends to invest primarily in sub-investment grade floating rate notes, but at times will invest in other asset classes, including fixed rate bonds, leveraged loans, CLOs, derivatives and cash as well as cash equivalents
Investment guidelines	**Issuer:** Max 5% of NAV from any issuer **Sector:** Max 25% of NAV from any single sector **Security ranking:** Max 25% of NAV invested in unsecured assets **Money market instrument/cash:** Max 10% **Floating rate assets:** Min 70% of NAV **Unhedged fixed rate:** Max 30% of NAV **CLO debt:** Max 25% of NAV
Base currency	Euro
Liquidity	Daily liquidity
Investor eligibility	UCITS Fund (Irish ICVC)

Please note, guidelines are subject to change.

Appendix

Alcentra Floating Rate Credit Strategy

Risk disclosures

- **The value of investments can fall. Investors may not get back the amount invested. Income from investments may vary and is not guaranteed.**
- **Objective/Performance Risk: There is no guarantee that the Strategy will achieve its objectives.**
- **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 portfolio.**
- **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 portfolio.**
- **Credit Risk: The issuer of a security held by the strategy may not pay income or repay capital to the portfolio when due.**
- **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 portfolio can lose significantly more than the amount it has invested in derivatives.**
- **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 portfolio to financial loss.**

Alcentra Floating Rate Credit Strategy

Target market

Investor type:							
Retail	N	Professional	Y	Eligible counterparty	Y		
Knowledge and/or experience:							
Basic investor	N	Informed investor	Y	Advanced investor	Y		
Ability to bear losses:							
No capital loss	N	Limited capital loss	N	No capital guarantee	Y	Loss beyond capital	Neutral
Client objectives and needs:							
Preservation	N	Growth	Y	Income	Y	Hedging	Neutral
Leveraged return profile	Neutral	Other	Neutral				
Time horizon:							
Recommended holding period (in years)	-	Very short-term (<1 year)	N	Short-term (<3 years)	N	Medium-term (<5 years)	Y
Long-term (>5 years)	N	Neutral	N				
Distribution strategy:							
Execution only	P	Execution with appropriateness test or non-advised services	P	Investment advice	B	Portfolio management	B

Source: BNY Mellon Investment Management EMEA Limited

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For members of the financial press

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