BNY Mellon High Yield Strategies Fund

MANAGER COMMENTARY | Q2 2024

Ticker: **DHF** CUSIP: 09660L105

Describe the performance of the fund relation to its benchmark during the last three months.

BNY Mellon High Yield Strategies Fund outperformed the ICE BofA U.S. High Yield Constrained Index. Credit quality selection was positive primarily attributed to overweight in Single Bs and underweight Double Bs. Industry allocation also had a positive impact on performance. An underweight in Broadcasters, Cable and Telecom was decidedly accretive and partly offset by an underweight in Energy. Credit selection was beneficial with strong selection in Telecommunications, Energy, Utilities and Services. This was partially offset by weaker selection in Pharmaceuticals, Retail and Homebuilders. Bank Loans contributed meaningfully to performance in addition to collateralized loan obligations (CLOs). Cash was also a modest contributor.

Against a backdrop of higher interest rates, the US High Yield (HY) market posted a 2.62% return in the first half of 2024, outperforming most other fixed income assets. Prices and spreads were largely unchanged from year end as coupons drove returns.

Despite a modestly negative return in Q2, lower quality CCC rated credits outperformed the market for the full period. As rates trended lower in Q2, higher quality BB credits outperformed to match B returns for the first half of the quarter. Automotive, Healthcare, and Chemicals led the market while Cable, Telecom, and Broadcasting were significant underperformers.

Capital market activity improved in 2024 with total volume of $165bn nearly matching the full year volume from last year. Refinancings accounted for 81% of the volume. Mutual fund flows started the year strong before flattening in Q2. For the first half, HY funds took in $5.5bn of net inflows

Despite initial signs of slowing economic indicators stemming from restrictive monetary policy, key drivers, such as employment, consumer spending and capex, appear supportive for credit for the near term. Earnings have held up well and leverage statistics remain well below long term averages. Defaults have slowed in 2024 but Liability Management Exercises (LMEs) have picked up sharply and are expected to remain among the solutions for distressed issuers.

How is the fund currently positioned and what is your current strategy?

Macroeconomic conditions remain supportive for credit, though the likelihood for cuts by central banks in 2nd Half of 2024 appears increasingly likely. We anticipate defaults to remain below its long terms averages over the near term given the solid credit fundamentals and robust capital market activity. Spreads remain historically tight but overall yields remain above longer term averages. In terms of positioning, we remain overweight single Bs and have modestly reduced our lower quality positioning in recent months given moderating conditions and yield. The fund has increased its floating rate exposure given the yield advantage. Importantly, sector and security selection remain critical for performance. We remain weary on cable, broadcasting and telecom and sanguine on financials, utilities and select healthcare.

Investors should consider the investment objectives, risks, charges and expenses of a mutual fund carefully before investing. To obtain a prospectus, or a summary prospectus, if available, that contains this and other information about a fund, investors should contact their financial professional or visit im.bnymellon.com. Investors should read the prospectus carefully before investing. Not all classes of shares may be available to all investors or through all broker-dealer platforms. Past performance is no guarantee of future results.

Risks

Bonds are subject to interest-rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. **High yield bonds** involve increased credit and liquidity risk than higher-rated bonds and are considered speculative in terms of the issuer's ability to pay interest and repay principal on a timely basis. The use of **derivatives** involves risks different from, or possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid, and difficult to value and there is the risk that changes in the value of a derivative held by the portfolio will not correlate with the underlying instruments or the portfolio's other investments. The **use of leverage** magnifies the fund's investment, market and certain other risks. For derivatives with a leverage component, adverse changes in the value or level of the underlying asset, reference rate or index can result in a loss substantially greater than the amount invested in the derivative itself. **The Fund is subject to investment risk, including the possible loss of the entire amount you invest.**

Closed-end fund shares (CEFs) are not deposits or obligations of, or guaranteed by, any bank and are not insured by the FDIC or any other agency. CEFs are subject to investment risk, including possible loss of principal amount invested. An investment in the fund may be speculative and it involves a high degree of risk. No assurance can be given that a fund will achieve its investment objective. An investment in CEFs presents a number of risks and is not appropriate for all investors. Investors should carefully review and consider potential risks before investing.

Shares of closed-end funds (CEF) are sold in the open market through a stock exchange. Shares may only be purchased or sold through registered broker/dealers. Closed-end funds, unlike open-end funds, are typically not continuously offered. An investment in CEFs presents a number of risks and is not appropriate for all investors. Investors should carefully review and consider potential risks before investing. Closed End Funds (CEFs) are exposed to much of the same risk as other exchange traded products, including liquidity risk on the secondary market, credit risk, concentration risk and discount risk. Shares of closed-end funds frequently trade at a market price that is below their net asset value. This is commonly referred to as "trading at a discount." This characteristic of shares of closed-end funds is a risk separate and distinct from the risk that the fund's net asset value may decrease.

The ICE BofA U.S. High Yield Constrained Index is a market-value-weighted index of all domestic and Yankee high-yield bonds, including deferred interest bonds and payment-in-kind securities. **The ICE BofA U.S. High Yield Master II Constrained Index** contains all securities in the ICE BofA Merrill Lynch U.S. High Yield Index but caps issuer exposure at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face values of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. In the event there are fewer than 50 issuers in the index, each is equally weighted, and the face values of their respective bonds are increased or decreased on a pro-rata basis. This index is the benchmark of the fund. Investors cannot invest directly in any index.

A **collateralized loan obligation (CLO**) is a single security backed by a pool of debt. Often these are corporate loans that have a low credit rating or leveraged buyouts made by a private equity firm to take a controlling interest in an existing company. The letters or numbers used to express a **credit rating** or credit score express the creditworthiness of the individual, business, or government being assessed. A typical credit rating scale uses the following letter ratings: AAA, AA, A, BBB, BB, B, CCC, CC, C, and D. **Basis points (bps)** basis point (bps) refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001. **Default** is the failure to make required interest or principal repayments on a debt, whether that debt is a loan or a security. Individuals, businesses, and even countries can default on their debt obligations. Generally, the **spread** refers to the difference or gap that exists between two prices, rates, or yields**. Par-weighted default rate** - The rate of borrowers who fail to remain current on their loans based on the par amount. Price-to-Book (P/B) - A ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

BNY Mellon Investment Adviser, Inc. is the fund's investment adviser, and has engaged Alcentra NY, LLC ("Alcentra NY"), to serve as the fund's sub-adviser. Alcentra NY is a global asset management firm focused on sub-investment grade corporate credit.

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