Describe the performance of the portfolio relative to its benchmark during the last three months.

BNY Mellon Sustainable U.S. Equity Portfolio, Inc. outperformed its benchmark index, the S&P 500 Index, for the first quarter of 2020.

Without doubt, the first quarter of 2020 represented one of the most testing environments faced by equity investors for many years. By quarter end, the euphoric conditions that had briefly prevailed at the start of the year seemed like a distant memory, having rapidly given way to extreme risk aversion as the global scope of the coronavirus pandemic, and its alarming humanitarian and economic implications, became apparent.

Financial markets also had to contend with a second major exogenous shock in the form of an oil-price war, initiated by Saudi Arabia, which resulted in the oil price halving in less than a month. This exacerbated the intensity of the decline in risk assets that began in late February, and persisted into the second half of March. While the response from central banks was initially muted, it ramped up dramatically as the crisis intensified and financial markets became progressively more distressed. Measures undertaken included a broad raft of interest-rate cuts, liquidity injections and funding facilities. Governments were also relatively swift to act and launched an unprecedented array of fiscal initiatives that sought to offset, to some degree, the deleterious impact of draconian lockdown measures. Such action latterly provided some comfort, and indices rallied towards the end of March.

With a stand-off between Saudi Arabia and Russia hurting the oil price, the portfolio’s lack of exposure to the energy sector proved particularly beneficial. Overweight and underweight positioning to information technology and industrials respectively also aided relative returns. Meanwhile, stock selection was strong in health care, consumer discretionary and communication services. On the other hand, stock picking was a hindrance in financials and information technology.

Activity

Microsoft contributed positively to relative returns, increased demand for the company’s cloud software aided the shares as people started to work from home en masse. Amazon’s exposure to this trend was also recognized by investors. With the coronavirus outbreak forcing people inside, the company appealed as a beneficiary of the growth in in-home buying and the accelerating shift towards online retail. Dollar General contributed positively to relative performance as US grocery sales surged in March with people set for a period indoors. Elsewhere, Gilead Sciences performed well on hopes that its drug Remdesivir could be effective in treating Covid-19.

Worries around the coronavirus and its impact on economic growth permeated the financial sector, weighing on Citigroup and Goldman Sachs as US Treasury yields fell. In an increasingly strained operating environment, the shares declined as the market began to price in the prospect of zero interest rates and a reasonable increase in credit losses. As mortgage spreads widened, so shares in Redwood Trust declined. Although the balance sheet and credit lines look sound enough to navigate such an environment, investors considered the extent to which Redwood’s ability to generate returns had been impaired in a zero-interest-rate environment. Shares in US homebuilder PulteGroup also faltered. Such a challenging backdrop, in which the market had grown concerned around a lack of earnings visibility and the demand outlook, was not conducive to solid share-price performance.
How is the portfolio currently positioned and what is your current strategy?

While there is no doubt that opportunities are being revealed by market weakness, it is by no means a given that volatility has ceased to be a feature of global equity markets. News from Tokyo towards the end of March that some restrictions were being reimposed as Covid-19 cases had increased again after a retreat, and the significant breakout in New York State, are but two examples of the unpredictability of the disease. Markets will continue to oscillate between the reassurance that governments and central banks will be standing by to support them and the uncertainty of both the duration and depth of what will undoubtedly be a significant economic impact. Furthermore, the longer-term implications in terms of social behavior and consumption trends will be potentially material, and fiscal expansion will have its own implications in terms of funding costs over the coming years.

We continue to draw on our long-term thematic framework to guide our stock selection, and focus intensely on company fundamentals as we assess attractive opportunities. As ever, embedding a focus on the sustainability of our investments into our analysis acts as a valuable guide to positioning the portfolio effectively for the long term. Furthermore, market dislocations, such as we are experiencing, produce opportunities, and we will be looking to ensure that the portfolio is well placed for the environment that our themes suggest we will see in the future.

The portfolio is only available as a funding vehicle for variable annuity contracts and variable life insurance policies. Individuals may not directly purchase shares of the portfolio. A variable annuity is an insurance contract issued by an insurance company that enables investors to accumulate assets on a tax-deferred basis for retirement or other long-term goals.

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 advisor or visit im.bnmma.com. 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.

As of 3/31/20, the portfolio’s top ten holdings were: Microsoft 7.49%, Apple 7.14% Amazon.com 6.16% Alphabet, Cl. A 4.64%, Medtronic 3.60%, PepsiCo 3.38%, Merck & Co. 3.36%, Accenture, Cl. A 3.34%, Abbott Laboratories 3.31%, Gilead Sciences 3.25%

As of 3/31/20, the companies mentioned represented 25.24% of the portfolios. The holdings listed should not be considered recommendations to buy or sell a particular security. Other holdings may not have performed as well as some of those listed herein. Portfolio composition is subject to change at any time.

Risks

Equities are generally subject to market, market sector, market liquidity, issuer and investment style risks, among other factors, to varying degrees. Small and midsized company stocks tend to be more volatile and less liquid than larger company stocks as these companies are less established and have more volatile earnings histories. Investing in foreign denominated and/or domiciled securities involves special risks, including changes in
currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries. 

**Socially responsible portfolios** may forgo opportunities to invest in other securities when advantageous, or may sell securities when disadvantageous for them to do so while pursuing their socially responsible criteria.

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.

The S&P 500® Index is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. Investors cannot invest directly in any index.

Views expressed are those of the advisor stated and do not reflect views of other managers or the firm overall. Views are current as of the date of this publication and subject to change.

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