Market Review

Financial market volatility reached historic levels amid the COVID-19 pandemic fallout and fueled growing investor uncertainty of near- and long-term economic impacts for state and local governments. Over the first two months of the quarter, municipal bonds rallied, led by strong technical drivers, robust retail demand and manageable supply. These gains were quickly erased during a March selloff led by massive mutual fund outflows and overall secondary market selling pressure that greatly weakened liquidity. Municipal bond yield changes dislocated from Treasuries, one of the few sectors that benefited from the flight-to-safety environment, with US Treasury yields falling over 100 basis points (bps) across the curve. Municipal bond yields experienced a massive spike during the height of the March selloff rising 200 bps over 10 days. However, news of federal support via liquidity and lending facilities subsequently led to a rally. Municipal yields ended the quarter modestly higher by around 4 bps for short maturity bonds and lower by around 6 bps for intermediate to long maturity bonds.

Supply for the first two months of the quarter was steady, reflected in the sustained resurgence in taxable municipal bond issuance, as the low rate environment continued to drive ideal conditions for issuers. Supply quickly plummeted in March as the pandemic fallout froze issuers, leading to very few primary deals being placed amid the spike in municipal rates and high volatility. Despite challenging conditions in March, issuance still ended the quarter up 13% from the first quarter of 2019. (Source: Refinitiv)

Historically high municipal mutual fund inflows persisted at the start of the year, reaching 60 consecutive weeks, driven by strong demand from individuals seeking the attractive tax shelter benefits associated with municipal bonds in a post-Tax Cut and Jobs Act (TCJA) environment. This record came to an end in the first week of March when investors pulled money out of mutual funds at record pace during the mass flight to safety amid investor reactions to COVID-19’s impact on the municipal market. The outflow cycle has totaled over $43 billion, bringing year-to-date fund outflows to over $20 billion. This marks a record pace for an outflow cycle since data began being tracked (source: ICI).

Municipal credit spreads widened across most sectors and quality ranges as investors demanded higher yields to compensate for the weak liquidity environment and expected financial/economic fallout from the COVID-19 pandemic. From a sector standpoint, transportation segments including airports and airlines, hospital and industrial development revenue sectors such as pre-paid gas experienced the greatest spread widening. From a state perspective, spread widening was most severe among lower-rated issuers and those with the heaviest pension funding burdens, such as Illinois. Highest rated AAA and AA bonds outperformed investment grade rated A and BBB bonds over the quarter (source: Bloomberg Barclays Index).

“Defending portfolio yield will be a key focus during the upcoming year with caution toward overweighting low-rated segments given diminished yield compensation in the low rate and spread environment.”
Quarterly Performance

For the quarter ended March 31, 2020, the fund’s class I shares returned -1.32%, excluding sales charges. In comparison, the fund’s unmanaged benchmark, the Bloomberg Barclays U.S. Municipal Bond Index, returned -0.63% for the same time period.

Average Annual Total Returns (3/31/20)¹

<table>
<thead>
<tr>
<th>Share Class/Inception Date</th>
<th>3 Month</th>
<th>YTD</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>10 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class A (NAV) 03/31/03</td>
<td>-1.45%</td>
<td>-1.45%</td>
<td>3.07%</td>
<td>3.47%</td>
<td>2.80%</td>
<td>3.98%</td>
</tr>
<tr>
<td>Class A (4.50% max. load)</td>
<td>-5.88%</td>
<td>-5.88%</td>
<td>-1.54%</td>
<td>1.90%</td>
<td>1.86%</td>
<td>3.50%</td>
</tr>
<tr>
<td>Class I (NAV) 12/15/08</td>
<td>-1.32%</td>
<td>-1.32%</td>
<td>3.33%</td>
<td>3.76%</td>
<td>3.06%</td>
<td>4.24%</td>
</tr>
<tr>
<td>Bloomberg Barclays U.S. Municipal Bond Index</td>
<td>-0.63%</td>
<td>-0.63%</td>
<td>3.85%</td>
<td>3.96%</td>
<td>3.19%</td>
<td>4.15%</td>
</tr>
</tbody>
</table>

¹The 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 is 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 12/31/2020. Total Expense Ratios: Class A 0.93%, Class I 0.68%. Net Expense Ratios: Class A 0.70%, Class I 0.45%. 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 returns.

Performance Summary

Relative underperformance can be attributed to asset allocation and security selection. An overweight position to revenue bonds detracted from relative returns over the quarter. In addition, security selection for tobacco securitization bonds weighed on results. Yield curve/duration slightly offset underperformance. An overweight duration position drove stronger returns as rates rallied during the quarter.

Market Outlook

The global fiscal and monetary responses to the COVID-19 pandemic along with the volatility experienced within the financial markets, including municipal bonds, have been unprecedented. With a steep pandemic-led economic contraction expected for the remainder of the year, many state and local governments will face revenue shortfalls, amid diminished consumer spending and business activity. Federal support will be a key mitigating factor and source of stabilization with the passing for the $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, bringing direct aid and stimulus programs, along with the Federal Reserve programs to purchase certain municipal bonds from states and large cities.

Technical factors will remain a challenge with a primary issuance calendar that is building and tepid mutual fund outflow trends, which could fuel further selling pressure. Overall, we remain cautious on valuations and credit expectations in the near term while keeping a close eye on the expected duration and depth of the pandemic and the fiscal response from municipal issuers and the impact from federal support.

With municipal fund flows a key demand driver for the market, we expect any continuation of sustained outflows to negatively impact market liquidity and pricing. The relative attractiveness of municipal bond yields to Treasuries as well as high grade corporate securities will likely entice greater buying interest from crossover corporate buyers such as banks and insurance companies. Direct buying from retail investors is likely to remain muted as investors observe ongoing negative headlines regarding the virus and its impact on municipal issuers.
From a supply perspective, we see the primary new issue calendar building and expect activity to pick up amid further market stabilization and with municipalities needing to fund pent-up infrastructure projects and other cash flow needs. A potential surge in supply, if coupled with a period of weak or tepid demand, could add pressure to liquidity and valuations. However, we expect the establishment of the Federal Municipal Liquidity Facility to purchase up to $500 billion of notes from states and large local governments to help mitigate supply pressures.

From a municipal credit quality perspective, the potential economic and fundamental credit implications from COVID-19 are a deep concern among all stakeholders. The potential for rating agencies to downgrade is heightened as some of the largest municipal issuers and state governors make public appeals for additional federal aid with the growing revenue shortfalls they are experiencing. A mitigating force will be the CARES Act grants of $150 billion to state and local governments to reimburse the costs of dealing with COVID-19, which will likely be sufficient to cover needed expenses during the crisis. The CARES Act also includes benefits to several municipal sectors including healthcare, airports, transit and education that will limit credit quality deterioration due to COVID-19. Because of the uncertainty associated with the duration and severity of the coronavirus outbreak and the magnitude and impact of federal assistance, we prefer essential service revenues sectors (electric, water/sewer, gas, waste disposal), which should fare well in this environment. AA rated and higher state/local governments with diversified revenues streams and strong pension systems should also prove relatively resilient.

Strategy positioning in the near term will emphasize sector diversification across both revenue and general obligation issues. A bias to economically defensive sectors such as water/sewer and public power represent key holdings. Stable issuers within hospital and airport sectors drive the yield profile. The strategy liquidity allocation remains adequate to capture potential attractive buying opportunities with a likely up-in-quality bias amid the economically challenging environment. We target strategy duration postures to approximate benchmark levels looking to mitigate risk during a potentially volatile interest rate environment. The flat municipal curve slope limits the incremental yield advantage from duration extension. We will look to reinvest cash among cheaper maturity portions of the curve and keep total portfolio duration within our targeted range.

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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. **Municipal income** may be subject to state and local taxes. Some income may be subject to the federal alternative minimum tax for certain investors. **Treasuries**-While the U.S. Government guarantees the timely payment of principal and interest on its securities, portfolios that invest in such securities are not guaranteed and will fluctuate in value. Capital gains, if any, are taxable. Portfolio composition is subject to change at any time.

Asset allocation and diversification cannot ensure a profit or protect against loss in declining markets.
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 Bloomberg Barclays Municipal Bond Index is a widely accepted, unmanaged total return performance benchmark for the long-term, investment-grade, tax-exempt bond market. Reflects investments of dividends and, where applicable, capital gain distributions. Investors cannot invest directly in any index.

**Yield curve** is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. There are three main types of yield curve shapes: normal (upward sloping curve), inverted (downward sloping curve) and flat. **Credit spread** is the difference in yield between a U.S. Treasury bond and another debt security of the same maturity but different credit quality. The **Municipal/Treasury Ratio, M/T ratio or muni-Treasury ratio**, as it is more commonly known, is a comparison of the current yield of municipal bonds to U.S. Treasuries. It aims to ascertain whether or not municipal bonds are an attractive buy in comparison. **High yield municipals** are bonds that are issued by state or local governments that are unrated by the major rating agencies or that have credit ratings that are below investment grade. **Pre-refunding bond** is a type of bond issued to fund another callable bond. With a pre-refunding bond, the issuer decides to exercise its right to buy its bonds back before the scheduled maturity date. The proceeds from the issue of the lower yield and/or longer maturing pre-refunding bond will usually be invested in Treasury bills (T-bills) until the scheduled call date of the original bond issue occurs. A **revenue bond** is a municipal bond supported by the revenue from a specific project, such as a toll bridge, highway or local stadium. Revenue bonds are municipal bonds that finance income-producing projects and are secured by a specified revenue source. Typically, revenue bonds can be issued by any government agency or fund that is managed in the manner of a business, such as entities having both operating revenues and expenses. **Duration** is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates. A bond's duration is easily confused with its term or time to maturity because they are both measured in years. However, a bond's term is a linear measure of the years until repayment of principal is due; it does not change with the interest rate environment. Duration, on the other hand is non-linear and accelerates as time to maturity lessens. **Liquidity** describes the degree to which an asset or security can be quickly bought or sold in the market at a price reflecting its intrinsic value. In other words: the ease of converting it to cash. **Range** refers to the difference between the low and high prices for a security or index over a specific time period. **Range bound** defines the difference between the highest and lowest prices traded for a defined period, such as a day, month, or year. The range is marked on charts, for a single trading period,

Mellon investment professionals manage the fund in their capacity as employees of BNY Mellon Investment Adviser, Inc.

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