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

BNY Mellon International Core Equity Fund underperformed its benchmark, the MSCI EAFE Index, during the first quarter of 2020. The Materials sector contributed positively to relative returns, while Financials detracted. From a country perspective, Sweden led relative returns, while Japan weighed on performance during the quarter.

The Materials sector was the third worst performing group within the index during the first quarter, as cyclical businesses were hit hardest in the COVID-19 driven selloff. The portfolio benefited from a modest underweight and positive stock selection in Australia and France. Australian iron ore producer Fortescue Metals Group Ltd outperformed industry peers. Industrial gases producer Air Liquide SA proved relatively defensive within the sector, as shares fell only 9%. The company maintains some defensive end markets that we believe should help its earnings profile in the near term. For example, 35% of the company’s European business is healthcare-related, where it provides oxygen, hydrochloric gel and ventilators to hospitals.

Sweden was the portfolio’s top relative contributor primarily driven by tobacco company Swedish Match AB which outperformed during the period. Positive stock selection in Industrials also added to returns.

Global pharmaceutical group Roche Holding AG exhibited defensive characteristics during the quarter, and as a result, shares rose 2%. Management hosted a virtual breakfast with investors and reiterated 2020 guidance. They emphasized China’s gradual return to normalization and stressed that they have encountered very little trial or oncology disruption as a result of the COVID-19 pandemic. Swedish Match AB, the smokeless tobacco and tobacco-free nicotine pouch product group proved its resiliency, as shares advanced 11% versus the market, which declined 23%, and the Consumer Staples sector, which was down 13%. The company saw solid trends in its tobacco-free nicotine pouch product Zyn even in the early stages of the economic turmoil led by COVID-19. The company was also likely a beneficiary of pantry stocking during the period. Japanese mobile and fixed-line telecommunications operator Nippon Telegraph and Telephone Corporation held up relatively well during the market swoon and declined approximately 4%, as the company relied on its defensive characteristics. The firm announced a joint venture with mapping technology group Zenrin to develop a “4D digital platform” that integrates sensing data for advanced usage within industrial internet of things (IoT) efforts.

Financials was in the crosshairs of the market meltdown during the quarter as collapsing rates, the sudden pause in global demand and political pressure on share buybacks and dividends combined to weigh on Financials. The fund absorbed challenging stock selection in Europe, particularly in France and the Netherlands. In the case of the Netherlands, an overweight to a lagging market hurt returns, while negative stock selection in France, primarily driven by banking giant BNP Paribas SA, also created headwinds.
Japan was the largest portfolio detractor driven by positioning in the Information Technology and Health Care sectors. Within Information Technology, Hitachi, Ltd. declined as the diversified conglomerate’s broad global exposure was under acute pressure. The company continued to streamline its business and focus efforts around its leading IoT platform Lumada, which we believe will generate value over the medium term. An underweight to Health Care, the best performing sector, in conjunction with lagging stock selection, also weighed on relative performance.

After a period of consistent outperformance in 2019, shares of Macquarie Group Limited declined sharply due to the sudden stop in global economic activity associated with the COVID-19 pandemic. The group’s areas of competitive advantage within asset management, particularly commodities and infrastructure, were key underperforming industries in the broader markets during the quarter. The sudden cease of global economic activity due to COVID-19 resulted in large-scale central bank and fiscal easing measures. Rates collapsed again, and the European Central Bank reinstated quantitative easing measures. More recently, European regulators mandated the suspension of share buybacks and dividends for the banking industry. The culmination of this backdrop pressured shares in BNP Paribas SA significantly during the period. UK-based electricity generation and distribution utility Centrica plc fell sharply during the quarter as the full scale of economic disruption associated with COVID-19 weighed on shares. The group was negatively impacted by lower commodity prices and will likely absorb higher near-term labor costs along with lower revenues. By the end of the quarter, there was rising political pressure associated with dividend payments. The company also underwent an expected management change during the period.

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

International markets underperformed US markets during a very challenging quarter globally. International developed markets tend to be a more cyclical asset class compared to the US. Technology and Health Care make up a large part of the US market and are more defensive, while the Financials, Energy and Industrials sectors are larger representations in international markets and are less defensive. This played out during the first quarter downturn, but, in our view, should serve the asset class well in an eventual recovery scenario. Leadership in the market also narrowed considerably, with cyclical value industries under severe pressure and even certain pockets of growth underperforming. Defensive quality was the top performing factor during the period, but typically these periods of narrow leadership are brief.

In Europe, negative interest rate policy, which existed before the coronavirus spread began, remains firmly in place post the collapse in sovereign interest rates. This backdrop continues to pose challenges for the banking sector. The dramatic impact of the virus experienced in Italy and Spain has negatively affected European business, though positive news has recently emerged as the number of new cases levels.

The silver lining of the pandemic is the globally-coordinated fiscal and monetary policy response, which has been swift and massive. When markets and economies normalize, we believe these stimulus measures will provide a material tailwind to growth. As we have already seen in China and Japan, manufacturing capacity should resume at a measured pace as we pass peak virus cases in Europe, the UK and the US. This will mark the beginning of a new global economic upcycle after the worst of this recession fades. Looking out over the next 12 months, we believe the large cap developed non-US asset class should perform well in a global recovery as valuations and investor expectations are depressed. Our balanced portfolio approach, which incorporates value and growth/momentum, historically outperforms in early-cycle recovery environments as the market broadens and rotates away from defensive characteristics.
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, contact your financial advisor or visit im.bnymellon.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.

Equities are subject to market, market sector, market liquidity, issuer, and investment style risks, to varying degrees. 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.

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.

As of 3/31/20, the fund's top ten holdings were: Roche Holding 5.00%, Sony 3.50%, Novartis 3.28%, Sanofi 3.27%, Nippon Telegraph and Telephone 2.90%, Unilever 2.70%, Essity 2.29%, Fortescue 2.27%, Deutsche Telekom 2.14%, Sumitomo Mitsui Financial Group 2.07%.

As of 3/31/20, the companies mentioned represented 18.40% of the fund’s portfolio in the aggregate. Zenrin was not a fund holding as of 3/31/20. 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.

The fund’s investment adviser is Mellon Investments Corporation (“Mellon”). The fund’s administrator is BNY Mellon Investment Adviser, Inc.

Views expressed are those of the adviser 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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