Market Insights

The Case for Investing in Fixed Income Globally

The global fixed-income market offers significant potential benefits for U.S. investors. We believe that by building a globally diversified bond portfolio, investors may be better positioned to pursue long-term financial goals.

Reasons to Consider a Global Fixed Income Approach:

1. A Larger and More Diverse Opportunity Set
2. Potentially Attractive Risk/ Return Characteristics
3. Diversification Opportunities
4. Currency Opportunities

10 Year Period – December 2010

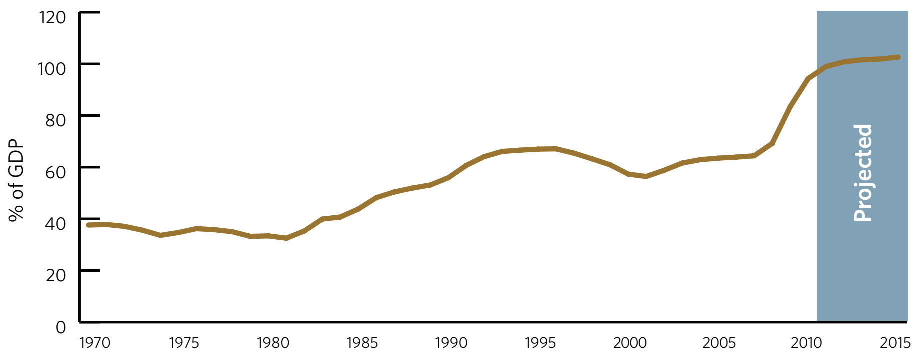
Asset Class	Representative Index	Market Size	Annualized Return	Standard Deviation	Sharpe Ratio
U.S. Equity	S&P 500 Index	$11.4 trillion	1.41%	16.31	-0.05
International Equity	MSCI EAFE Index	$11.1 trillion	3.50%	18.55	0.07
U.S. Fixed Income	Barclays Capital U.S. Aggregate Index	$15.1 trillion	5.84%	3.80	0.94
Global Fixed Income	Barclays Capital Global Aggregate Ex U.S. (hedged)	$22.6 trillion	4.71%	2.45	1.00

Source: FactSet. **Past performance is no guarantee of future results.** See definitions on back page. Investors cannot invest directly in any index. Actual results will vary.

As shown above, global fixed income is one of the largest asset classes with among the best risk/return characteristics as indicated by its high relative Sharpe Ratio.

The U.S. fixed-income market continues to be among the most dynamic and liquid securities markets in the world. However, the growth in the U.S. federal debt coupled with the threat of higher U.S. interest rates in the future make the fundamentals in the U.S. market potentially less compelling. A portfolio that also contains foreign bonds can provide investors with diversification in the event of worsening domestic conditions for U.S. debt investing and also an opportunity to invest in potentially more attractive foreign markets.

Total U.S. Federal Debt as a Percentage of GDP



Source: Office of Management and Budget. Data for 2010 and beyond is based on projections.

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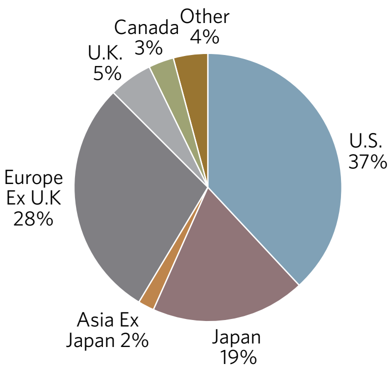
Global Fixed Income Landscape

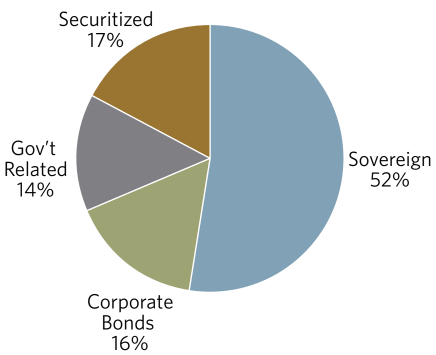
The Barclays Capital Global Aggregate Index, a widely used measure of the global fixed-income market, includes 13,474 securities representing $38.3 trillion in market value. The index:

- Represents 64 countries covering North America, Europe and Asia
- Sectors include Treasuries, Agencies, Supranational, Corporate and Securitized

*Country Diversification**



*Sector Diversification**

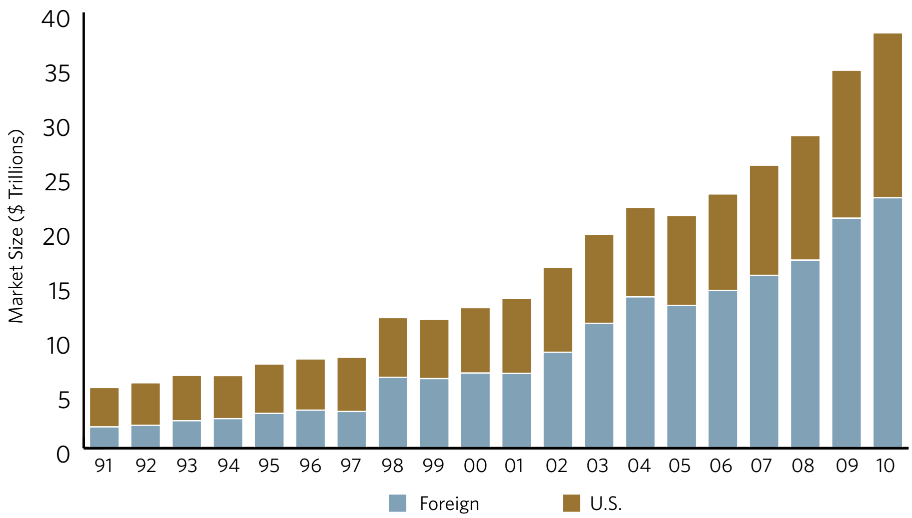


*As of 12/31/10. Index composition is subject to change at any time.

Larger and More Diverse Opportunity Set

The universe of fixed-income securities globally has undergone significant expansion thanks in part to improving fundamentals abroad. This has led to a deepening of the fixed income securities market outside the U.S. As the chart illustrates, the value of foreign bonds over the past 20 years has grown significantly vs. U.S. bonds and is now larger in market size.

Growth in Global Bond Market
Barclays Global Aggregate Index



Source: FactSet, Barclays Capital.

Emerging Market Debt Local Currency

An example of the diversity of investment opportunities available abroad is emerging market debt denominated in local currencies, a relatively new asset type. Historically, most emerging market bonds were denominated in currencies such as the U.S. dollar. However, due to economic improvements and greater fiscal discipline in the developing world, more countries have the ability to issue debt in their local currency. For U.S. investors, this presents both increased diversification benefits and higher return potential, though it also involves additional risks, including from the changing value of local currency. (See 'Main Risks' on last page.)

Investing in Different Global Bond Markets

Countries with the lowest current yields may not always represent poor fixed-income investments.

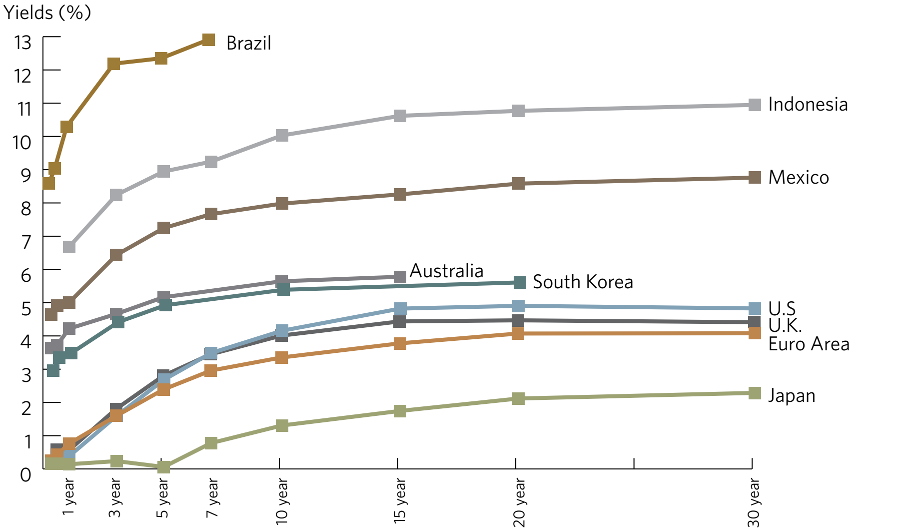
For example, as illustrated in the accompanying chart, Japan is currently one of the lowest yielding markets in the world. Yields on Japanese Government Bonds (JGB) have remained in the low single digits for a prolonged period as Japan attempts to spark growth. Yet, we believe investing in Japanese sovereign bonds may be advisable in times of rising yields elsewhere or during periods of global uncertainty. As yields have risen in other parts of the world, decreasing the value of these bonds, JGBs have historically retained more of their value relative to higher-yielding options. (Of course, JGBs could also decline in value if and when their yields rise.)

Conversely, global bond managers can seek to take advantage of higher yields in other parts of the world when the opportunity presents itself. As interest income remains a primary source of overall bond returns, the higher rates available abroad can be a powerful source of additional total returns in a global portfolio. (It should be noted that higher yields often correspond with increased risks and can be achieved as the result of prior price declines.)

Risk/Return Characteristics Vary by Country

The expanding opportunity set abroad can allow professional money managers to seek to exploit divergent economic and interest rate cycles across the investing universe. Economic conditions, as well as the shape and level of global yield curves, can vary by country and region as the chart below illustrates. These differences provide active managers with the potential to add value by overweighting markets with better fundamentals and underweighting less attractive markets.

Global Sovereign Bond Yield Curves

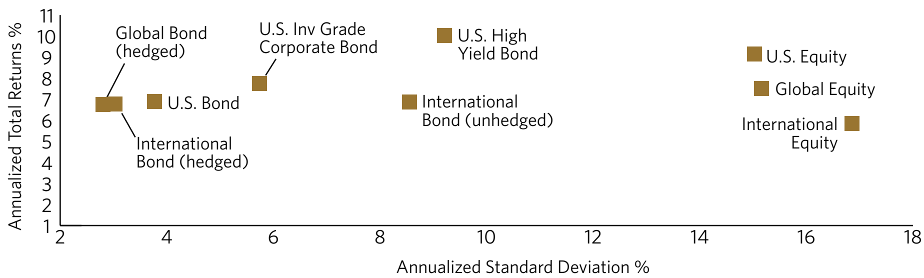


Source: Bloomberg; yields as of 12/31/2010. Euro area bonds are represented by German Bunds. Yields are for local currency bonds.

Potentially Attractive Risk/Return Characteristics

Besides helping to diversify domestic-oriented portfolios, international fixed income has historically provided among the best risk/return characteristics of any asset class as demonstrated in the chart below. Also, as a source of international diversification, global bonds have exposed investors to much less volatility relative to international equities.

Historical Risk vs. Return (20 Years Ended 12/31/10)



Source: FactSet. **Past performance is no guarantee of future results**. Representative indexes are: Barclays Capital Global Aggregate (Global Bonds), Barclays Capital U.S. Aggregate (U.S. Bonds), Barclays Capital Global Aggregate Ex-U.S. (International Bonds), Barclays Capital U.S. Corporate (U.S. Inv Grade Corporate Bonds), Barclays Capital U.S. High Yield (U.S. High Yield Bonds), S&P 500 (U.S. Equities), MSCI EAFE (International Equities) and MSCI World (Global Equities). See definitions on back page. Investors cannot invest directly in any index. Actual results will vary. Risk is measured by standard devision. Standard deviation is the statistical measure of the degree to which the individual value in a probability distribution tends to vary from the mean of the distribution.

An allocation to foreign bonds can help diversify individual portfolios that may be too heavily weighted to U.S. debt securities.

Diversification Opportunities

A diversified portfolio of fixed-income securities with issuer, country, and currency diversification can help diversify individual portfolios that may be too heavily weighted to domestic securities. The correlation of returns among domestic fixed-income sectors has historically been high compared to international fixed income. In essence, international bond exposure provides a way to perhaps mitigate domestic risks such as higher U.S. interest rates or increases in domestic inflation rates. Additionally, international fixed income has traditionally exhibited lower correlation to U.S. equities, providing added diversification benefits to U.S. focused portfolios.

Correlation of Returns — 20-Year Period Ended 12/31/2010

Asset Class	Representative Index	U.S. Equities	Global Equities	U.S. Fixed Income	Global Fixed Income
U.S. Equities	S&P 500 Index	1.00	–	–	–
Global Equities	MSCI EAFE Index	0.77	1.00	–	–
U.S. Fixed Income	Barclays Capital U.S. Aggregate Index	0.11	0.08	1.00	–
Global Fixed Income	Barclays Capital Global Aggregate Ex U.S. Index	0.15	0.39	0.48	1.00

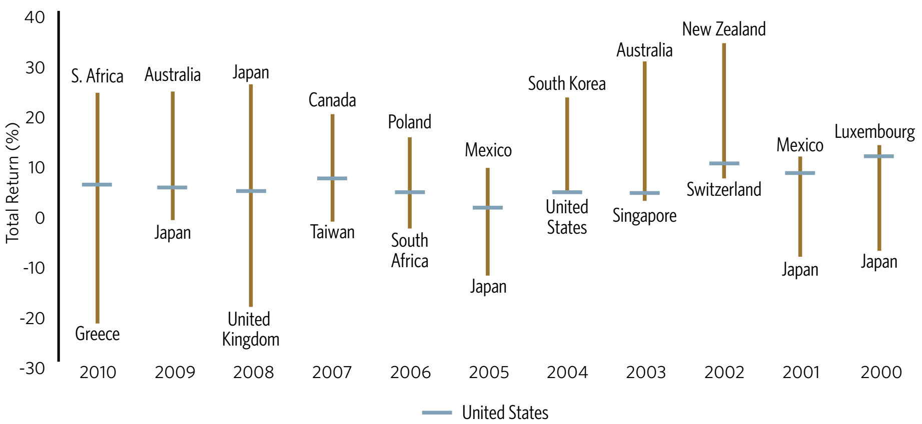
Source: FactSet. **Past performance is no guarantee of future results.** See definitions on back page. Asset allocation and diversification cannot ensure a profit or protect against loss in declining markets.

A diversified approach that incorporates bonds from multiple countries, including the U.S., can reduce the chances of missing investment opportunities worldwide. ***Asset allocation and diversification cannot ensure a profit or protect against loss in declining markets.***

Performance Leadership Tends to Vary

A diversified approach that incorporates bonds from multiple countries can reduce the chances of missing investment opportunities worldwide. As the chart below illustrates, the best performing fixed-income markets are often found outside the U.S. and performance leadership often varies from country to country.

Best and Worst Performing Bond Markets in U.S. Dollars
Largest 25 Countries in Barclays Capital Global Aggregate



Source: Barclays Capital. **Past performance is no guarantee of future results.** This example is for illustrative purposes only. It is intended to illustrate the changing country leadership in terms of bond market performance over time, the divergence in performance from year to year, and the potential benefits of a diversified investment approach. It is not intended to promote investment in any single country or market. Returns from emerging market countries have been historically more volatile than those of the U.S. and other developed countries.

Dollar Dynamics

Despite recent official statements declaring a strong U.S. dollar policy, the dollar has been in a decade-long overall decline (see dollar chart) brought about in part by low levels of U.S. interest rates, high current account deficits and rising public indebtedness. Dollar rallies during this time have tended to coincide with periods of financial crisis, as occurred in 2008 during the subprime meltdown. Despite its decline in relative value, the U.S. dollar continues to be sought after for its perceived safety and has generally increased in value during "flight to quality" periods.

Because of its perceived quality, the dollar continues to be sought after as the primary international reserve currency, which has generally been supportive of dollar value as more market participants seek to hold dollars. The decline in the U.S. dollar and thus the value of these reserves has led some to seek an alternative reserve mechanism. While no viable alternative has yet to appear, it bears watching if some alternatives do develop.

Currency Opportunities

Currency fluctuations between countries provide both diversification benefits to portfolios predominantly denominated in a local currency as well as a potential source of alpha. Currency can be viewed as a separate investment decision providing active managers with an additional source of potential returns.

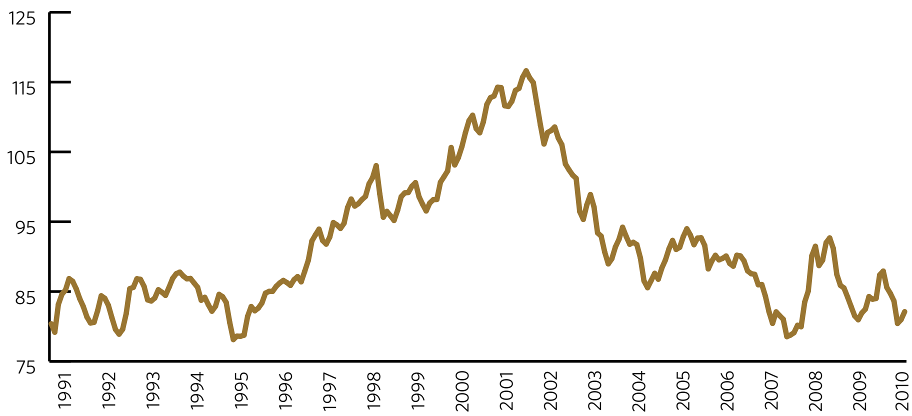
Currency Drivers

- Inflation Expectations
- Monetary Policy
- Debt Levels
- Balance of Payments
- Supply and Demand Dynamics

Changing U.S. Dollar Environment

The potential for further dollar weakness exists as higher inflation expectations and increased U.S. government debt levels, plus persistently large U.S. account deficits, contribute to a weaker environment for the dollar. A portfolio of international bonds denominated in foreign currencies can help protect the purchasing power of U.S. based investors during these periods, as the value of many foreign denominated bonds rises in dollar terms. (Of course, the opposite may occur when the dollar strengthens, resulting in greater volatility to the downside.)

Real Trade Weighted U.S.$ vs. Major Currencies — 1991-2010



Source: FactSet.

Hedged Currency Exposure

To dampen volatility, investors may seek to hedge their foreign currency exposure, as this can provide many of the benefits of a global portfolio without the volatility of currency movements. As the chart below illustrates, U.S. dollar movements tend to be cyclical, offering opportunities for domestic investors to increase returns during periods of declines while reducing returns when the dollar strengthens. In a hedged portfolio, this currency volatility is reduced or eliminated by entering into derivative contracts that seek to negate the effects of currency fluctuations.

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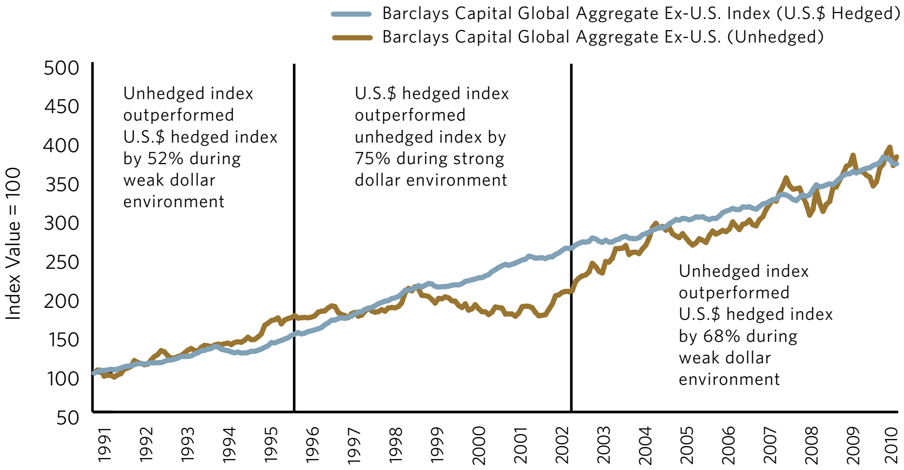
Performance: Barclays Capital Global Aggregate Ex-U.S. Index (U.S.$ Hedged) vs. Barclays Capital Global Aggregate Ex-U.S. (Unhedged)



Source: Barclays Capital. **Index performance is historical and not indicative of future results.** Investors cannot invest directly in any index. See definitions on back page.

Conclusion

In short, the addition of non-U.S. bonds, including those from both developed and emerging markets, may help increase returns and decrease overall portfolio risk. U.S. investors should consider a global approach to fixed income investing to take advantage of:

- **A larger opportunity set**
- **Attractive risk/return characteristics**
- **Diversification benefits**
- **Currency opportunities overseas**

Bond with Fixed Income Leaders

The Dreyfus Corporation, established in 1951, has a strong heritage in fixed-income management. Standish Mellon Asset Management Company LLC (Standish) is a Dreyfus affiliate that manages Dreyfus-branded funds, including those listed below, under a dual-employee arrangement. Standish is a world-class fixed-income specialist based in Boston, with a history dating to 1933.

	Dreyfus International Bond Fund*	**Dreyfus/Standish Global Fixed Income Fund***	**Dreyfus Emerging Markets Debt Local Currency Fund***
Ticker Symbols	Class A: DIBAX Class C: DIBCX Class I: DIBRX	Class A: DHGAX Class C: DHGCX Class I: SDGIX	Class A: DDBAX Class C: DDBCX Class I: DDBIX
Investment Goal/ Approach	Seeks to maximize total return by investing primarily in fixed-income securities of foreign governments and companies	Seeks to maximize total return (consistent with preserving principal and liquidity) by investing in fixed-income securities of U.S. and non-U.S. governments and companies	Seeks to maximize total return by investing in emerging market bonds and other debt instruments issued by foreign governments
Key Characteristics	Considerable latitude in determining whether to hedge the fund's currency exposure and to what extent	Normally hedges most of its foreign currency exposure to protect the U.S. dollar value of its assets	Focuses primarily on emerging markets debt issued in local currencies
Geographic Focus	Non-U.S. developed market countries worldwide; limited emerging market exposure	Developed market countries worldwide; limited emerging market exposure	Emerging market countries worldwide
Holdings (as of 12/31/10)	**Top 5 Countries:** U.S. 20.7% Japan 14.1% U.K. 13.7% Italy 13.0% Germany 11.4%	**Top 5 Countries:** U.S. 29.5% Germany 17.3% U.K. 11.2% Japan 10.7% Italy 10.5%	**Top 5 Currency Exposures:** Polish Zloty 11.66% Malaysian Ringgit 11.53% Mexican Peso 11.02% Russian Ruble 10.88% Turkish Lira 10.54%
Other Information	**Inception Date: 12/30/05** # of Holdings: 171 (as of 12/31/10) Portfolio Turnover: 153.71% (as of fiscal YE 10/31/10)	**Inception Date: 01/01/94** # of Holdings: 182 (as of 12/31/10) Portfolio Turnover: 131.97% (as of fiscal YE 12/31/09)	**Inception Date: 09/12/08** # of Holdings: 85 (as of 12/31/10) Portfolio Turnover: 74.25% (as of fiscal YE 5/31/10)

Portfolio composition is subject to change at any time.

*The Dreyfus Corporation is the investment adviser for the above funds. Portfolio managers from Standish Mellon Asset Management Company LLC, a Dreyfus affiliate, manage these funds pursuant to a dual-employee arrangement with Dreyfus, applying their proprietary investment processes to the funds. Both Dreyfus and Standish are subsidiaries of BNY Mellon. BNY Mellon Asset Management is the umbrella organization for BNY Mellon's affiliated investment management firms and global distribution companies.

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