Diversify Your Fixed Income Lineup

The Case for Going Global

BRAVE CONVERSATIONS ON DEFINED CONTRIBUTION

BNY MELLON RETIREMENT
Globalize Your Fixed Income Approach.

Fixed income is an essential component of every retirement plan. It can help lower volatility, provide diversification to equities and enhances the risk/return profile in participants’ portfolios. Fixed income investing, like all investing, comes with a multitude of risks that must be carefully managed.

Traditionally, many DC plans have relied primarily on Bloomberg Barclays’ Aggregate benchmarked strategies as their primary fixed income offering. A limited fixed income offering, coupled with a challenging — and changing — fixed income landscape, notably, potential for rising interest rates domestically and a low-yield environment within traditionally offered fixed income benchmarked solutions, is driving the need to rethink the DC plan’s approach to fixed income solutions provided within the menu.

With bond investments comprising on the average 11% of 401(k) plan balances, the potential impact for participant investment outcomes may be significant.¹

¹ Source: 2016 Investment Company Fact Book.
Rethinking Core Fixed Income

Global opportunities abound — why limit the plan’s core fixed income options to U.S. bonds?

The world bond market is extremely large, with significant opportunities to be found outside our own country. Against the backdrop of potentially rising rates, there is growing appeal and justification for international diversification through investments in sovereign and corporate debt from highly rated developed countries and higher-yielding emerging markets.

Moreover, as the chart illustrates, the U.S. bond market has not had a stellar track record over the past 10 years, so it may make sense to explore other opportunities in the wider world of fixed income.

Lack of global diversification concentrates risk in a changing monetary policy environment.

The concentration of risk can be exacerbated if allocations are limited to a single market — such as fixed income strategies benchmarked against the Bloomberg Barclays’ U.S. Aggregate Index. Without access to broader fixed income markets, the volatility within a participant’s portfolio can potentially increase.

Global quarterly interest rates

The best-performing fixed income markets have historically been found outside the U.S., and performance results have varied from country to country.²

1 Source: Bloomberg Barclays. Best- and worst-performing bond markets in U.S. dollars, based on 25 largest countries in Bloomberg Barclays Global Aggregate Index. 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. Investors cannot invest directly in any index. Actual results will vary.
60% of today’s bond investments are found outside of the U.S.

We believe these opportunities are too significant to ignore. There has been a meaningful expansion of global fixed income offerings. In 1990, fixed income investment offerings were heavily weighted to the U.S., with 65% of all fixed income capitalization located domestically.

Today, that has shifted, with well over half of the fixed income market globally residing in foreign countries. Offering plan participants access to global fixed income diversification may be important in today’s shifting investment landscape.

In an effort to streamline their DC plan lineups, many plans offer a limited number of fixed income options, 2.6 on average, and these are typically under-represented compared to equity offerings. This limited offering may lead to under-diversification for participants and may serve to exacerbate investment risks.

In the absence of providing more or broader choice within the lineup to equip participants with the ability to diversify, it’s important to supply a fixed income solution that diversifies across countries, sectors and durations.

Depending on the goals of the plan, every plan sponsor — and investment committee member — will have a unique philosophy and approach to providing fixed income solutions within their DC lineup.

For a plan decision-maker who is looking for a more constrained approach and is offering only one or two fixed income options in the plan lineup, they may want to consider utilizing a globally diversified, professionally allocated fixed income solution. This may help provide participants with optimal exposure and global diversification to potentially mitigate risk.

The majority of fixed income opportunities is now located overseas.

The average participant invests in only one or two fixed income funds.4

Balancing the DC plan’s fixed income lineup.


As of 12/31/15.

Source: FactSet, as measured by the Bloomberg Barclays Global Aggregate Index. The Bloomberg Barclays Global Aggregate Index measures a wide spectrum of global government, government-related agencies, corporate and securitized fixed income investments, all with maturities greater than one year. Investors cannot invest directly in any index. The index is a representative sample of fixed income securities and does not represent all available debt.
Dreyfus/Standish Global Fixed Income Fund

Dreyfus/Standish Global Fixed Income Fund is a globally diversified fixed income fund with a track record of strong results, and may be a good option for a plan taking the core approach.

Global as the new core

This fund emphasizes globally diversified investment-grade fixed income securities with currency exposure hedged back to the U.S. dollar. As a result, it can act as a truly diversified core fixed income component in a portfolio. It isn’t overly reliant on any single source for interest rate exposure and is not dependent on emerging market debt yields.

Built bond by bond

Standish knows what investors expect a bond fund to do: pursue income with moderate volatility. The fund’s managers selectively build the portfolio, bond by bond. Derivatives are used primarily for hedging and risk management, not as significant sources of alpha.

Agility and investment conviction

Standish has the expertise and latitude to search out risk-adjusted value across the full spectrum of global bond and currency markets. They believe the fund’s size enables it to invest with conviction and capture meaningful exposure to smaller bond issues — a segment that offers significant opportunity and one in which other bond funds may be limited.

A track record of strong results

![Chart showing calendar-year returns](chart.png)

Source: Dreyfus, Class I shares. Past performance is no guarantee of future results. Other share classes would have achieved different returns. Positive calendar-year returns do not equate with no principal decline, due to the offsetting potential of yield.

Average annual total returns (as of 9/30/16)

<table>
<thead>
<tr>
<th>Share Class</th>
<th>1 YR</th>
<th>5 YR</th>
<th>10 YR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class I Shares (SDGIX)</td>
<td>4.30%</td>
<td>4.29%</td>
<td>5.91%</td>
</tr>
<tr>
<td>Class A Shares (DHGAX), NAV</td>
<td>3.99%</td>
<td>3.99%</td>
<td>5.71%</td>
</tr>
<tr>
<td>Class A Shares, 4.50% max sales</td>
<td>-0.69%</td>
<td>3.04%</td>
<td>5.22%</td>
</tr>
<tr>
<td>Bloomberg Barclays Global Aggregate Hedged Index</td>
<td>6.54%</td>
<td>4.26%</td>
<td>4.73%</td>
</tr>
</tbody>
</table>

The 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. Class I shares are available only to certain eligible investors. Total expense ratios: Class A 0.82%; Class I 0.52%.

The ability to take high-conviction bond positions.

Having a smaller asset base may help lead to capturing more meaningful exposures. Standish’s approach and the fund’s current asset size provide for the ability to explore a wider opportunity set, specifically among smaller bond issuers. They may freely and quickly take on high-conviction positions in smaller bond issues — smaller bond issues have limited impact within mega funds.

Percent of $400mm deal required to take 2% fund level position

<table>
<thead>
<tr>
<th>ABS Deal X=$400mm</th>
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<tbody>
<tr>
<td>$1 Billion Fund</td>
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<tr>
<td>$10 Billion Fund</td>
</tr>
<tr>
<td>$20 Billion Mega Fund</td>
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</tbody>
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Source: Standish, 2015.
BNY Mellon. A revolutionary financial leader with more than 230 years of experience.

BNY Mellon Retirement steps beyond the bounds of traditional thinking to share brave new ideas for America’s daunting retirement challenge. As one of the world’s 10 largest investment managers, our presence is commanding, and as the sixth largest manager of U.S. defined benefit assets, our retirement insights are deep. We bring new thinking and investment experience to retirement, and are committed to helping Americans achieve the targeted outcomes they desire.

Learn more
For more detail on our insights regarding defined contribution, ask about our Brave Conversations on Defined Contribution.
For more information on our suite of investment offerings, refer to our DC Investment Suite.
To discover more about retirement best practices and BNY Mellon Retirement, visit us at im.bnymellon.com/dc or call 1-800-992-5560 to speak with a Dedicated Retirement Consultant.

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Investors should consider the investment objectives, risks, charges and expenses of a fund carefully before investing. Contact your financial advisor to obtain a prospectus, or a summary prospectus, if available, that contains this and other information about a fund, and read it carefully before investing.

Major 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. 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. 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. Diversification cannot assure a profit or protect against loss.

Standish portfolio managers manage certain Dreyfus funds pursuant to a dual employee arrangement, applying their proprietary investment processes to the respective funds.

BNY Mellon Retirement personnel act as licensed representatives of MBSC Securities Corporation (a registered broker-dealer) to offer securities, and act as officers of The Bank of New York Mellon (a New York chartered bank) to offer bank-maintained collective investment funds as well as to offer separate accounts managed by BNY Mellon Investment Management firms. MBSC Securities Corporation, a registered broker-dealer, FINRA member and wholly owned subsidiary of The Bank of New York Mellon Corporation, has entered into agreements to offer securities in the U.S. on behalf of certain BNY Mellon Investment Management firms. BNY Mellon Investment Management is one of the world’s leading investment management organizations, and one of the top U.S. wealth managers, encompassing BNY Mellon’s affiliated investment management services, wealth management services and global distribution companies. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation.

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