Dreyfus Global Real Return Fund: Poised for opportunity

*Braced for greater uncertainty and heightened volatility in 2019, the Real Return team at Newton, a BNY Mellon company, is poised to adapt to whatever conditions lie ahead.*

After almost a decade of positive returns in equity markets, the end of last year was enough to remind investors of the potential virtues of strategies that seek to mitigate volatility. There was a see-saw in the fortunes of major equity markets over the course of 2018 with positive returns in the first part of the year wiped out by October and December market falls. Witnessing such indiscriminate market losses across major markets, the Real Return team at Newton admits: there was really “nowhere to hide” during these market routs.

Between the threat of a contracting Chinese economy, heightened risk of a U.S. recession, skittishness over the direction of monetary policies, and political troubles continuing to plague Europe, the team is doubtful that a pick-up in global growth is due any time soon.

**Seeking to mitigate risk**

Despite global equities advancing 7.8% in the first month of 2019¹ (the strongest January in history), the Real Return team believes an uncertain backdrop is likely to continue.

When the Global Real Return strategy was designed back in 2004², it was in response to the team’s belief that the investment world was changing. The team viewed the backdrop at the time as showing that investments were no longer purely about the “high return/the-trend-is-your-friend” dynamics it felt typified much of the 1980s and 1990s – and which the team thinks have returned more recently.

Instead, the team believed global financial markets would be characterized by more volatility and lower overall returns. For this reason, in creating the strategy the team wanted to place an emphasis on mitigating volatility, by seeking to achieve a minimum average annual total return of USD 1-month LIBOR plus 4% (before fees and expenses) over a five-year period. This approach has been followed in the Dreyfus Global Real Return Fund too, as a way of encouraging the team to think about mitigating downside risk and to emphasize the asymmetry of returns.

While no future results are guaranteed, recent returns bear out the validity of this approach. Against a background of heightened volatility in both equity and fixed income markets through the close of 2018, the Dreyfus Global Real Return Fund (Class I shares) was +0.55% in December and +1.11% for the full year. Over the same time periods the MSCI World Index (a proxy for developed market equities) was -7.60% and -8.71% respectively (both in USD terms). Meanwhile, the Bloomberg Barclays Global Aggregate Bond Index (a proxy for global bonds) returned 2.02% in December and -1.20% for the full year.³

**Positioned for potential opportunities**

Although the year has started strongly for global equity markets, the team remains vigilant for signs that the optimism-driven rally is running out steam.

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¹ Source: MSCI All-Country World Index, January 31, 2019.
² The strategy was first launched in the U.K. then brought to the U.S. as a mutual fund in May 2010
³ Source: Newton, MSCI and Bloomberg, December 31, 2018
**Investment update**

Says the team, "While we have seen some easing of financial conditions in markets, we believe this will be insufficient to arrest the continued gathering of negative momentum and the onset of renewed market turbulence.

"The authorities in China appear set to provide more support in 2019 than in the previous year, but we remain skeptical that this will be in a quantum sufficient to fuel sustained upward momentum in markets, and it does not look likely that we will see a repeat of the combined global stimulus – the so-called Shanghai Accord – that reflated global economies and markets in 2016 and 2017."

The team believes the global economy and financial markets will resume a deflationary course through the year and that this is likely to bring an increasing number of securities on its ‘wish list’ into buying territory.

"In this stage, we anticipate refocusing attention upon return generation rather than solely volatility mitigation. This is likely to involve significantly increasing exposure to favoured equities as more compelling valuations broaden the opportunity set. We also envisage increasing exposure to asset classes such as corporate debt as factors such as elevated corporate leverage, declining profitability and growing liquidity risk conspire to push yields higher," concludes the team.

**Dreyfus Global Real Return Fund**

**AVERAGE ANNUAL TOTAL RETURNS**

**PERIOD ENDED 12/31/18**

<table>
<thead>
<tr>
<th>Share Class</th>
<th>Qtr</th>
<th>YTD</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>Since Inception (5/12/10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class I Shares – DRRIX</td>
<td>-1.43%</td>
<td>1.11%</td>
<td>1.11%</td>
<td>2.68%</td>
<td>2.47%</td>
<td>3.71%</td>
</tr>
<tr>
<td>Class A Shares – DRRA (5.75% max. load)</td>
<td>-7.16%</td>
<td>-4.84%</td>
<td>-4.84%</td>
<td>0.39%</td>
<td>1.00%</td>
<td>2.72%</td>
</tr>
<tr>
<td>FTSE One-Month U.S. Treasury Bill Index</td>
<td>0.56%</td>
<td>1.82%</td>
<td>1.82%</td>
<td>0.94%</td>
<td>0.57%</td>
<td>—</td>
</tr>
</tbody>
</table>

The performance data quoted represent 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. Go to dreyfus.com for the fund’s most recent month-end returns. Returns for less than one year are not annualized. Total expense ratios: Class A 1.17% and Class I 0.90%. Net expense ratios: Class A 1.15% and Class I 0.90%. Class I shares are available only to certain eligible investors. The net expense ratios reflect a contractual expense reduction agreement through 3/1/19.

The FTSE One-Month U.S. Treasury Bill Index consists of the last one-month Treasury bill month-end rates. The FTSE One-Month U.S. Treasury Bill Index measures return equivalents of yield averages. The instruments are not marked to market. Investors cannot invest directly in any index. On 7/31/18, the Citi One-Month U.S. Treasury Bill index was renamed FTSE One-Month U.S. Treasury Bill Index.

**LEARN MORE**

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Investment update

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 Dreyfus fund, contact your financial advisor or visit dreyfus.com. Read the prospectus carefully before investing. Class I shares are available only to certain eligible investors.

All investments involve risk. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

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MSCI World Index: The MSCI World Index is a free float-adjusted, market capitalization-weighted index that is designed to measure the equity market performance of developed markets, including the United States, Canada, Australia, Europe, New Zealand and the Far East.

Bloomberg Barclays Global Aggregate Bond Index: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

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MARK-50413-2019-02-13

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