MARKET SUMMARY

Global equity indices moved higher during the review period, albeit at a more measured pace than was witnessed in the first quarter of 2017. Once again, political factors dominated the headlines. In the U.S., President Donald Trump enjoyed a modest victory as his bill to repeal Obamacare cleared its first major hurdle in the House of Representatives. However, further negotiation will be required before this legislation is finally passed and attention can be turned to fiscal policy. In addition, Trump’s skirmishes with the FBI, North Korea, and Syria (to name but a few) were distractions and undermined confidence in his administration, contributing to a further unwinding of last year’s so-called “Trump trade.”

In Europe, elections in France and the UK gave rise to contrasting results, the former providing greater certainty and the latter weakening the government’s perceived strength and stability. However, in our view, both results are indicative of a trend to vote against the incumbent elite: new French President Emmanuel Macron was virtually unknown until forming his En Marche! party in 2016, while UK Labour Party leader Jeremy Corbyn has successfully established a socialist alternative in British politics for the first time in several decades.

While a lot of soft economic indicators have remained strong, stresses have been appearing in areas supported by cheap and plentiful credit, such as auto lending, bank lending, and credit lending to corporates. Furthermore, with the yield curve continuing to flatline over the quarter following the U.S. Federal Reserve’s March interest-rate rise, bond markets appear skeptical about the growth narrative.
PORTFOLIO STRATEGY AND RESULTS

Against this backdrop, there was some rotation towards the more defensive sectors, as banks, miners and oil & gas underperformed, while health care performed better. This environment was broadly supportive for the strategy.

From an asset allocation perspective, the strategy’s significant underweight to the oil & gas and materials sectors was beneficial to relative performance. At the stock level, several of the top individual contributors to performance came from the consumer sectors, including fast-food retailer McDonald’s and branded consumer goods conglomerate Orkla. RELX, the publisher and information provider, continued to perform well, with its latest figures showing good growth and a robust longer-term outlook.

A number of the strategy’s technology holdings detracted from performance as many mature technology companies experienced a difficult quarter. IT and networking business Cisco Systems was the largest negative contributor after reporting weak guidance and numbers, which led to a meaningful share-price drop. Stock selection in the financials sector was also detrimental to relative performance. Money-transfer business Western Union continued to be weak as the outcome of Alibaba affiliate Ant Financial’s bid for rival MoneyGram remained unclear.

Elsewhere, toymaker Mattel disappointed after cutting its dividend, as its new CEO outlined a fresh strategy for the company to expand into digital and mobile toy markets. However, the stock’s yield remains high enough for us to remain invested, and we believe the business is continuing to implement its turnaround plan.

Source: Newton. Based on a representative portfolio and subject to change; actual individual accounts may vary. 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. Investors cannot invest directly in any index.
INVESTMENT STRATEGY AND OUTLOOK

With almost a decade having elapsed since the first rumblings of the global financial crisis, it would be startling had there not been discernible areas of improvement in economies. And, in 2017, a recovery in activity is certainly evident; indeed, the pervasive pickup in the Eurozone has exceeded most expectations for a region scarred so recently by its own particular debt crisis.

Nonetheless, whatever progress has been made in stabilizing economies, the legacy of the global crisis continues to shape the outlook for investors in a number of important ways. The world’s collective debt burden has grown ever greater in response to the crisis, largely via the assumption of liabilities by authorities, and it is difficult to overlook the reality that economic activity across the major regions appears highly credit-dependent (and intolerant, therefore, of the higher interest rates that would typically have characterized a recovery this established).

Furthermore, the gains and losses from debt-fueled growth have not accrued anywhere near evenly across populations, a feature which has provided fertile ground for the march of populist politics — whose progress may have been hindered by Emmanuel Macron’s victory in France, and by defeats for populist parties in Spain, Austria and the Netherlands, but not halted altogether.

The financial crisis and its consequent economic shocks have done much to damage the legitimacy of authorities, and emboldened the case for changes in political leadership (and models) across swaths of the developed world. By contrast, though, financial-market participants have forged a symbiotic relationship with policymakers, reinforced by the use of rising asset prices as an explicit tool to stimulate economic activity.

The intervention of central banks has profoundly distorted those prices, and arguably enabled investors to overlook political and other risks which in another era would have caused greater commotion in financial markets.

In seeking to change their course, monetary policymakers must contend with many risks to economic growth, including a great debt overhang, a more inward-looking and protectionist world, a credit-bloated China, and emerging markets’ vulnerability to the U.S.-dollar strength which could accompany a fiscally expansionist Trump administration. Those risks, together with the general absence of inflation, cast doubt on whether the leading central banks have sufficient latitude to make fundamental changes.

From here, the range of potential scenarios to anticipate is wide. In seeking to balance alertness to the many risks with the pursuit of the opportunities that should flow from disruption and divergence in economies and financial markets, we think it is vital for investors to be flexible and discerning. With the potential for further volatile, low-growth periods ahead, our focus remains on those securities that are not dependent on the continued support of asset prices to justify their valuations, while we believe that the strategy’s buy/sell discipline should help to give it resilience in challenging market conditions.

### REGIONAL ALLOCATION AS OF 06/30/2017

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>MSCI World Index</th>
<th>Underweight (%)</th>
<th>Overweight (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe Non-Eurozone</td>
<td>35.97%</td>
<td>11.69%</td>
<td>24.28</td>
</tr>
<tr>
<td>Other</td>
<td>1.00%</td>
<td>0.26%</td>
<td>0.74</td>
</tr>
<tr>
<td>Europe Eurozone</td>
<td>9.74%</td>
<td>12.03%</td>
<td>-2.29</td>
</tr>
<tr>
<td>Asia Pacific ex-Japan</td>
<td>0.46%</td>
<td>4.47%</td>
<td>-4.01</td>
</tr>
<tr>
<td>Japan</td>
<td>1.99%</td>
<td>8.71%</td>
<td>-6.72</td>
</tr>
<tr>
<td>North America</td>
<td>47.38%</td>
<td>62.84%</td>
<td>-15.46</td>
</tr>
<tr>
<td>Developed Market (Subtotal)</td>
<td>96.54%</td>
<td>100.00%</td>
<td>-3.46</td>
</tr>
</tbody>
</table>

Source: Newton. Based on a representative portfolio and subject to change; actual individual accounts may vary. 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. Investors cannot invest directly in any index.
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Equities are subject to market, market sector, market liquidity, issuer, and investment style risks, to varying degrees. There is no guarantee that dividend-paying companies will continue to pay, or increase, their dividend. 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.

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