

# Dreyfus/Standish Fixed Income Fund

**SEMIANNUAL REPORT** June 30, 2011



BNY MELLON  
ASSET MANAGEMENT

**Dreyfus**



## A LETTER FROM THE CHAIRMAN AND CEO

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Dear Shareholder:

We are pleased to present this semiannual report for Dreyfus/Standish Fixed Income Fund, covering the six-month period from January 1, 2011, through June 30, 2011. For information about how the fund performed during the reporting period, as well as general market perspectives, we provide a Discussion of Fund Performance on the pages that follow.

Although 2011 began on an optimistic note amid encouraging economic data, by midyear investors returned to a more cautious outlook. The U.S. and global economies continued to grow over the reporting period, but at a relatively sluggish pace. First, manufacturing activity proved unsustainably strong in late 2010 and early 2011, leading to a subsequent slowdown in new orders. Second, turmoil in the Middle East drove oil prices higher and produced an inflationary drag on real incomes. Third, natural and nuclear disasters in Japan added to upward pressure on energy prices, and these unexpected events disrupted the global supply chain, especially in the automotive sector. Finally, in the United States, disappointing labor and housing markets weighed on investor sentiment. U.S. government securities rallied as investors grew more defensive, and most bond market sectors produced positive total returns over the first half of the year.

We expect economic conditions to improve over the second half of 2011. Inflationary pressures appear to be peaking in most countries, including the United States, and we have already seen energy prices retreat from their highs. In addition, a successful resolution to the current debate regarding government spending and borrowing, without major fiscal tightening over the near term, should help avoid a serious disruption to the domestic economy. To assess how these and other developments may affect your investments, we encourage you, as always, to speak with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

Jonathan R. Baum  
Chairman and Chief Executive Officer  
The Dreyfus Corporation  
July 15, 2011



## DISCUSSION OF FUND PERFORMANCE

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*For the period of January 1, 2011, through June 30, 2011, as provided by David Bowser, CFA, and Peter Vaream, Portfolio Managers*

### **Fund and Market Performance Overview**

For the six-month period ended June 30, 2011, Dreyfus/Standish Fixed Income Fund's Class I shares achieved a total return of 3.11%.<sup>1</sup> In comparison, the Barclays Capital U.S. Aggregate Bond Index (the "Index"), the fund's benchmark, achieved a total return of 2.72% for the same period.<sup>2</sup>

Bonds produced mixed results amid heightened market volatility over the first half of 2011, as investors responded first to signs of economic strength and later to evidence of renewed economic weakness. The fund produced higher returns than its benchmark, primarily due to relative strength early in the year stemming from overweighted positions among corporate bonds and mortgage-backed securities.

### **The Fund's Investment Approach**

The fund seeks to achieve a high level of current income, consistent with conserving principal and liquidity, and secondarily seeks capital appreciation when changes in interest rates and economic conditions indicate that capital appreciation may be available without significant risk to principal. To achieve this, the fund invests, under normal circumstances, at least 80% of net assets in fixed-income securities issued by U.S. and foreign governments and companies.

The fund invests primarily in investment-grade securities, but may invest up to 15% of assets in below investment-grade securities, sometimes referred to as junk bonds. The fund will not invest in securities rated lower than B at the time of purchase. In this instance, we will attempt to select fixed-income securities that have the potential to be upgraded.

### **Shifting Economic Sentiment Sparked Market Volatility**

Investors' economic outlooks had improved dramatically by the start of 2011 due to improvements in employment, consumer spending and corporate earnings, suggesting that the U.S. recovery was gaining traction. These positive developments supported prices of corporate bonds, but they sent prices of U.S. government securities lower as investors looked forward to a less accommodative monetary policy from the

Federal Reserve Board. However, investors' economic optimism was shaken in February 2011, when political unrest in the Middle East led to sharply rising energy prices, and again in March, when devastating natural and nuclear disasters in Japan threatened one of the world's largest economies. Nonetheless, investors proved resilient, and the more economically sensitive sectors of the bond market bounced back from these unexpected shocks.

In late April, investor sentiment began to deteriorate in earnest when Greece again appeared headed for default on its sovereign debt, U.S. economic data proved more disappointing than expected and the debate regarding U.S. government spending and borrowing intensified. Higher yielding bonds suffered bouts of heightened volatility and U.S. Treasury securities recovered earlier losses as newly risk-averse investors shifted their focus from riskier market sectors to traditionally defensive investments.

#### **Higher Yielding Bias Supported Fund Performance**

In this choppy investment environment, the fund benefited from its overweighted exposure to higher yielding market sectors, including investment-grade corporate bonds, high yield corporate bonds, commercial mortgage-backed securities and residential mortgage-backed securities. The fund's corporate-backed holdings were broadly diversified across various industry groups. Investment-grade bonds issued by financial services companies and high yield bonds backed by utilities fared particularly well in the constructive climate early in the year. Our security selection strategy among mortgage-backed securities also bolstered relative results, as higher-coupon mortgages performed well amid historically lower-than-average prepayment rates stemming from depressed housing prices and tighter lending standards. The fund's holdings of commercial mortgage-backed securities responded favorably to an improving business climate during the first quarter of 2011.

Although our focus on higher yielding bond market sectors detracted from relative performance amid bouts of heightened volatility from late April through mid-June, it was not enough to fully offset positive results from earlier in the year. The fund also suffered some mild disappointments stemming from other strategies during the reporting period. A relatively short average duration among U.S. government securities prevented the fund from participating fully in the second-quarter rally, and a "barbell" yield curve positioning reduced the fund's exposure to

stronger-performing segments of the market's maturity spectrum. A short position in the Japanese yen, which we established using derivative instruments in the foreign exchange market, also proved counterproductive.

## A More Defensive Investment Posture

We currently expect the U.S. economic recovery to persist, but at a more sluggish pace than historical averages, as a number of global and domestic headwinds continue to weigh on market sentiment. While we have retained a mild emphasis on higher yielding sectors of the bond market that have tended to do well during economic expansions, we have reduced the magnitude of those overweighted positions. As a result, the fund's composition as of midyear more closely resembled that of the benchmark. We intend to maintain a more neutral investment posture until we see stronger evidence that the risks confronting the U.S. and global economies are indeed waning.

July 15, 2011

*Bond funds are subject generally to interest rate, credit, liquidity and market risks, to varying degrees, all of which are more fully described in the fund's prospectus. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes, and rate increases can cause price declines. Foreign bonds are subject to special risks including exposure to currency fluctuations, changing political and economic conditions, and potentially less liquidity. The fixed income securities of issuers located in emerging markets can be more volatile and less liquid than those of issuers in more mature economies.*

*High yield bonds are subject to increased credit risk and are considered speculative in terms of the issuer's perceived ability to continue making interest payments on a timely basis and to repay principal upon maturity.*

*Investments in foreign currencies are subject to the risk that those currencies will decline in value relative to the U.S. dollar, or, in the case of hedged positions, that the U.S. dollar will decline relative to the currency being hedged. Each of these risks could increase the fund's volatility. The fund may use derivative instruments, such as options, futures and options on futures, forward contracts, swaps (including credit default swaps on corporate bonds and asset-backed securities), options on swaps and other credit derivatives. A small investment in derivatives could have a potentially large impact on the fund's performance.*

<sup>1</sup> Total return includes reinvestment of dividends and any capital gains paid. Past performance is no guarantee of future results. Share price, yield and investment return fluctuate such that upon redemption, fund shares may be worth more or less than their original cost. Return figures provided reflect the absorption of certain fund expenses by The Dreyfus Corporation pursuant to a voluntary undertaking in effect that has been terminated since the end of the reporting period. Had these expenses not been absorbed, the fund's return would have been lower.

<sup>2</sup> SOURCE: LIPPER INC. — Reflects reinvestment of dividends and, when applicable, capital gain distributions. The Barclays Capital U.S. Aggregate Bond (Hedged) Index is a widely accepted, unmanaged total return index of corporate, U.S. government and U.S. government agency debt instruments, mortgage-backed securities and asset-backed securities with an average maturity of 1-10 years. The Index does not include fees and expenses to which the fund is subject. Investors cannot invest directly in any index.