

DREYFUS STRATEGIC MUNICIPAL BOND FUND INC  
Form N-CSR  
January 30, 2013

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT  
INVESTMENT COMPANIES

Investment Company Act file number 811- 5877

**Dreyfus Strategic Municipal Bond Fund, Inc.**  
(Exact name of Registrant as specified in charter)

c/o The Dreyfus Corporation

200 Park Avenue

New York, New York 10166

(Address of principal executive offices) (Zip code)

Janette E. Farragher, Esq.

200 Park Avenue

New York, New York 10166

(Name and address of agent for service)

Registrant's telephone number, including area code: (212) 922-6000

Date of fiscal year end: 11/30

Date of reporting period: 11/30/12



**FORM N-CSR**

**Item 1. Reports to Stockholders.**

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# Dreyfus Strategic Municipal Bond Fund, Inc.

**ANNUAL REPORT** November 30, 2012

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## **Dreyfus Strategic Municipal Bond Fund, Inc.**

### **Protecting Your Privacy**

#### **Our Pledge to You**

**THE FUND IS COMMITTED TO YOUR PRIVACY.** On this page, you will find the Fund's policies and practices for collecting, disclosing, and safeguarding nonpublic personal information, which may include financial or other customer information. These policies apply to individuals who purchase Fund shares for personal, family, or household purposes, or have done so in the past. This notification replaces all previous statements of the Fund's consumer privacy policy, and may be amended at any time. We'll keep you informed of changes as required by law.

**YOUR ACCOUNT IS PROVIDED IN A SECURE ENVIRONMENT.** The Fund maintains physical, electronic and procedural safeguards that comply with federal regulations to guard nonpublic personal information. The Fund's agents and service providers have limited access to customer information based on their role in servicing your account.

#### **THE FUND COLLECTS INFORMATION IN ORDER TO SERVICE AND ADMINISTER YOUR ACCOUNT.**

The Fund collects a variety of nonpublic personal information, which may include:

- Information we receive from you, such as your name, address, and social security number.
- Information about your transactions with us, such as the purchase or sale of Fund shares.
- Information we receive from agents and service providers, such as proxy voting information.

#### **THE FUND DOES NOT SHARE NONPUBLIC PERSONAL INFORMATION WITH ANYONE, EXCEPT AS PERMITTED BY LAW.**

*Thank you for this opportunity to serve you.*

The views expressed in this report reflect those of the portfolio manager only through the end of the period covered and do not necessarily represent the views of Dreyfus or any other person in the Dreyfus organization. Any such views are subject to change at any time based upon market or other conditions and Dreyfus disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Dreyfus fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Dreyfus fund.

Not FDIC-Insured Not Bank-Guaranteed May Lose Value

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Dreyfus  
Strategic Municipal Bond Fund, Inc.

## The Fund

### A LETTER FROM THE PRESIDENT

Dear Shareholder:

We are pleased to present this annual report for Dreyfus Strategic Municipal Bond Fund, Inc., covering the 12-month period from December 1, 2011, through November 30, 2012. 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.

The municipal bond market generally advanced over the past year in response to positive supply-and-demand dynamics, improving credit conditions, and investors' changing expectations of global and domestic economic conditions. While monthly variations in economic data were pronounced, the longer-term pace of U.S. economic growth has been relatively consistent at about half the average rate achieved in prior recoveries. However, a number of macroeconomic headwinds remain, including uncertainty regarding U.S. fiscal and tax policies and the ongoing effects of the European financial crisis.

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In light of these factors, the U.S. economic recovery appears likely to persist at subpar levels over the first half of 2013. However, the nation's easy monetary policy and a favorable resolution of the fiscal debate may prompt corporate decision-makers to increase capital spending, which could have positive implications for the U.S. economy and most states' fiscal conditions later in the year. As always, we encourage you to stay in touch with your financial advisor as new developments unfold.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona  
President  
The Dreyfus Corporation  
December 17, 2012

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### DISCUSSION OF FUND PERFORMANCE

*For the period of December 1, 2011, through November 30, 2012, as provided by Daniel Barton and Steven Harvey, Portfolio Managers*

#### Fund and Market Performance Overview

For the 12-month period ended November 30, 2012, Dreyfus Strategic Municipal Bond Fund, Inc. achieved a total return of 22.46% on a net-asset-value basis.<sup>1</sup> Over the same period, the fund provided aggregate income dividends of \$0.57 per common share, which reflects a distribution rate of 5.82%.<sup>2</sup>

Falling long-term interest rates and favorable supply-and-demand dynamics continued to support municipal bond prices over the reporting period. The fund's results benefited from a long average duration and its leveraging strategy, both of which enabled it to participate more fully in market rallies.

#### The Fund's Investment Approach

The fund seeks to maximize current income exempt from federal income tax to the extent believed by Dreyfus to be consistent with the preservation of capital. In pursuing this goal, the fund invests at least 80% of its assets in municipal bonds. Under normal market conditions, the weighted average maturity of the fund's portfolio is expected to exceed 10 years. Under normal market conditions, the fund invests at least 80% of its net assets in municipal bonds considered investment grade or the unrated equivalent as determined by Dreyfus.

The fund also has issued auction-rate preferred stock (ARPS), a percentage of which remains outstanding from its initial public offering, and has invested the proceeds in a manner consistent with its investment objective. This, along with the fund's participation in secondary inverse floater structures, has the effect of "leveraging" the portfolio, which can magnify gain and loss potential depending on market conditions.

Over time, many of the fund's older, higher yielding bonds have matured or were redeemed by their issuers. We have attempted to replace those bonds with investments consistent with the fund's investment policies. We have also sought to upgrade the

The Fund

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### DISCUSSION OF FUND PERFORMANCE (continued)

fund with newly issued bonds that, in our opinion, have better structural or income characteristics than existing holdings. When such opportunities arise, we usually look to sell bonds that are close to their optional redemption date or maturity.

## Supply-and-Demand Dynamics Supported Municipal Bonds

Most financial markets were rallying at the start of the reporting period amid U.S. employment gains and a quantitative easing program in Europe. Investors grew more tolerant of risks, focusing more on underlying fundamentals and less on macroeconomic developments. These positive influences were called into question during the spring, when the U.S. labor market's rebound slowed and measures designed to relieve fiscal pressures in Europe encountered resistance. Although these headwinds temporarily sparked a flight to perceived safe havens, municipal bonds remained strong across the credit-quality range, in part due to robust demand from investors seeking competitive levels of after-tax income.

Municipal bond prices also responded positively to falling long-term interest rates stemming from stimulative measures by the Federal Reserve Board over the summer. Meanwhile, new issuance volumes remained relatively low when political pressure led to less borrowing for capital projects. Instead, municipalities primarily issued new bonds to refinance older debt, resulting in a net decrease in the supply of tax-exempt securities. From a credit quality perspective, most states have seen their credit fundamentals improve along with the U.S. economy. While a number of pressures continue to burden the finances of state and municipal governments, many have made the difficult decisions required to shore up their fiscal conditions.

In this environment, lower rated and longer maturity municipal bonds led the market higher, while highly rated and shorter term securities generally lagged market averages.

## Longer Maturities Supported Relative Performance

The fund's relative performance was buoyed by a relatively long average duration, which increased its participation in gains at the longer end of the maturity spectrum. In addition, the fund benefited from overweighted exposure to high yield municipal bonds, as well as to bonds backed by revenues from municipal projects, particularly those issued to finance hospitals and industrial development projects. The fund's returns

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also were bolstered by bonds backed by the states' settlement of litigation with U.S. tobacco companies. Finally, the fund's leveraging strategy magnified the market's gains.

These positive factors were partly offset by our ongoing efforts to upgrade the fund's overall credit quality, which may have been premature as lower quality bonds outpaced their higher quality counterparts. Moreover, the fund encountered shortfalls among Puerto Rico municipal bonds, which are tax-exempt for residents of most states. Puerto Rico bonds suffered amid a weak local economy and rising fiscal pressures from unfunded pension liabilities.

## Adjusting to Changing Market Conditions

We have been encouraged by recently improved data, but we remain aware that the U.S. economy is still vulnerable to uncertainty regarding future tax and fiscal policies. We expect market volatility to increase at times as lawmakers attempt to address these issues. Therefore, we have continued our efforts to upgrade the fund's credit quality, and we have retained the fund's emphasis on longer maturity municipal bonds.

December 17, 2012

*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.*

*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.*

*The use of leverage may magnify the fund's gains or losses. For derivatives with a leveraging component, adverse changes in the value or level of the underlying asset can result in a loss that is much greater than the original investment in the derivative.*

*1 Total return includes reinvestment of dividends and any capital gains paid, based upon net asset value per share. Past performance is no guarantee of future results. Income may be subject to state and local taxes, and some income may be subject to the federal alternative minimum tax (AMT) for certain investors. Capital gains, if any, are fully taxable. Return figures provided reflect the absorption of certain fund expenses by The Dreyfus Corporation pursuant to an*

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*undertaking in effect through May 31, 2013, at which time it may be extended, terminated or modified. Had these expenses not been absorbed, the fund's returns would have been lower.*

*2 Distribution rate per share is based upon dividends per share paid from net investment income during the period, divided by the market price per share at the end of the period, adjusted for any capital gain distributions.*

The Fund

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### SELECTED INFORMATION

November 30, 2012 (Unaudited)

|  |    |            |
|--|----|------------|
| Market Price per share November 30, 2012 | \$ | 9.79       |
| Shares Outstanding November 30, 2012     |    | 48,985,391 |
| New York Stock Exchange Ticker Symbol    |    | DSM        |

### MARKET PRICE (NEW YORK STOCK EXCHANGE)

|       | Fiscal Year Ended November 30, 2012 |              |                 |                   |
|-------|-------------------------------------|--------------|-----------------|-------------------|
|       | Quarter                             | Quarter      | Quarter         | Quarter           |
|       | Ended                               | Ended        | Ended           | Ended             |
|       | February 29, 2012                   | May 31, 2012 | August 31, 2012 | November 30, 2012 |
| High  | \$9.04                              | \$9.12       | \$9.49          | \$9.88            |
| Low   | 8.29                                | 8.24         | 8.83            | 9.12              |
| Close | 8.91                                | 9.10         | 9.49            | 9.79              |

### PERCENTAGE GAIN (LOSS) based on change in Market Price\*

|  |          |
|--|----------|
| November 22, 1989 (commencement of operations) |          |
| through November 30, 2012                      | 362.97 % |
| December 1, 2002 through November 30, 2012     | 140.32   |
| December 1, 2007 through November 30, 2012     | 76.34    |
| December 1, 2011 through November 30, 2012     | 24.46    |
| March 1, 2012 through November 30, 2012        | 15.24    |
| June 1, 2012 through November 30, 2012         | 11.00    |
| September 1, 2012 through November 30, 2012    | 4.74     |

### NET ASSET VALUE PER SHARE

|  |        |
|--|--------|
| November 22, 1989 (commencement of operations) | \$9.32 |
| November 30, 2011                              | 8.10   |



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|                   |      |
|-------------------|------|
| February 29, 2012 | 8.70 |
| May 31, 2012      | 8.82 |
| August 31, 2012   | 8.99 |
| November 30, 2012 | 9.30 |

**PERCENTAGE GAIN** based on change in Net Asset Value\*

|  |          |
|--|----------|
| November 22, 1989 (commencement of operations) |          |
| through November 30, 2012                      | 371.60 % |
| December 1, 2002 through November 30, 2012     | 110.16   |
| December 1, 2007 through November 30, 2012     | 51.35    |
| December 1, 2011 through November 30, 2012     | 22.46    |
| March 1, 2012 through November 30, 2012        | 12.12    |
| June 1, 2012 through November 30, 2012         | 8.79     |
| September 1, 2012 through November 30, 2012    | 5.03     |

\* *With dividends reinvested.*

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STATEMENT OF INVESTMENTS

November 30, 2012

| <b>Long-Term Municipal Investments—141.9%</b>  | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|-----------------|---------------|-----------------------|------------|
| <b>Alabama—7%</b>  |                 |               |                       |            |
| Jefferson County, Limited Obligation School Warrants   | 5.25            | 1/1/17        | 2,000,000             | 2,002,800  |
| Jefferson County, Limited Obligation School Warrants   | 5.00            | 1/1/24        | 1,000,000             | 990,730    |
| <b>Alaska—2.3%</b>   |                 |               |                       |            |
| Northern Tobacco Securitization Corporation of Alaska, Tobacco Settlement Asset-Backed Bonds | 5.00            | 6/1/32        | 2,500,000             | 2,265,525  |
| Northern Tobacco Securitization Corporation of Alaska, Tobacco Settlement Asset-Backed Bonds | 5.00            | 6/1/46        | 9,465,000             | 8,069,196  |
| <b>Arizona—7.3%</b>  |                 |               |                       |            |

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|  |      |         |                            |            |
|--|------|---------|----------------------------|------------|
| Barclays Capital Municipal Trust<br>Receipts (Salt River Project<br>Agricultural Improvement and<br>Power District, Salt River Project<br>Electric System Revenue) | 5.00 | 1/1/38  | 13,198,367 <sup>a,b</sup>  | 15,266,411 |
| Glendale Western Loop 101 Public<br>Facilities Corporation, Third<br>Lien Excise Tax Revenue   | 7.00 | 7/1/33  | 6,010,000                  | 6,393,378  |
| Pima County Industrial Development<br>Authority, Education Revenue<br>(American Charter Schools<br>Foundation Project)   | 5.50 | 7/1/26  | 4,000,000                  | 3,977,120  |
| Pima County Industrial Development<br>Authority, IDR (Tucson<br>Electric Power Company Project)  | 5.75 | 9/1/29  | 6,000,000                  | 6,396,180  |
| Salt Verde Financial Corporation,<br>Senior Gas Revenue  | 5.00 | 12/1/37 | 1,000,000                  | 1,206,840  |
| <b>California—15.9%</b>  |      |         |                            |            |
| Barclays Capital Municipal Trust<br>Receipts (Los Angeles<br>Department of Airports,<br>Senior Revenue (Los Angeles<br>International Airport))                     | 5.00 | 5/15/31 | 5,247,500 <sup>a,b,c</sup> | 6,183,864  |
| California,<br>GO (Various Purpose)  | 5.75 | 4/1/31  | 7,800,000                  | 9,529,728  |

The Fund

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STATEMENT OF INVESTMENTS (continued)

| <b>Long-Term Municipal<br/>Investments (continued)</b> | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|--|--------------------|------------------|--------------------------|------------|
| <b>California (continued)</b>                          |                    |                  |                          |            |
| California,<br>GO (Various Purpose)                    | 6.00               | 3/1/33           | 2,250,000                | 2,895,953  |
| California,<br>GO (Various Purpose)                    | 6.50               | 4/1/33           | 5,000,000                | 6,430,500  |
| California,<br>GO (Various Purpose)                    | 6.00               | 11/1/35          | 5,000,000                | 6,336,200  |

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|   |      |         |                        |           |
|---|------|---------|------------------------|-----------|
| California State Public Works Board, LR (The Regents of the University of California) (Various University of California Projects) | 5.00 | 4/1/34  | 3,000,000              | 3,372,300 |
| California Statewide Communities Development Authority, Revenue (Front Porch Communities and Services Project)                    | 5.13 | 4/1/37  | 4,975,000 <sup>b</sup> | 5,185,443 |
| Golden State Tobacco Securitization Corporation, Tobacco Settlement Asset-Backed Bonds  | 4.50 | 6/1/27  | 2,000,000              | 1,847,120 |
| Los Angeles Department of Water and Power, Power System Revenue   | 5.00 | 7/1/34  | 2,885,000              | 3,383,095 |
| Los Angeles Department of Water and Power, Water System Revenue   | 5.00 | 7/1/43  | 5,000,000              | 5,939,900 |
| Sacramento City Unified School District, GO (Insured; Assured Guaranty Municipal Corp.)   | 0.00 | 7/1/24  | 5,220,000 <sup>d</sup> | 3,254,357 |
| Sacramento County, Airport System Subordinate and Passenger Facility Charges Grant Revenue  | 6.00 | 7/1/35  | 4,000,000 <sup>c</sup> | 4,809,960 |
| San Buenaventura, Revenue (Community Memorial Health System)  | 7.50 | 12/1/41 | 1,500,000              | 1,894,935 |
| San Diego Public Facilities Financing Authority, Senior Sewer Revenue   | 5.25 | 5/15/34 | 2,500,000              | 2,931,225 |
| Santa Margarita/Dana Point Authority, Revenue (Santa Margarita Water District Improvement Districts Numbers 2,3 and 4)            | 5.13 | 8/1/38  | 5,000,000              | 5,917,250 |

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| Long-Term Municipal Investments (continued) | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|-----------------|---------------|-----------------------|------------|
|---|-----------------|---------------|-----------------------|------------|

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|   |      |          |                        |           |
|---|------|----------|------------------------|-----------|
| <b>California (continued)</b>   |      |          |                        |           |
| Tuolumne Wind Project Authority,<br>Revenue (Tuolumne<br>Company Project)   | 5.88 | 1/1/29   | 2,000,000              | 2,424,740 |
| <b>Colorado—2%</b>  |      |          |                        |           |
| Colorado Housing and Finance<br>Authority, Single Family<br>Program Senior and Subordinate<br>Bonds (Collateralized; FHA)   | 6.60 | 8/1/32   | 785,000                | 835,774   |
| <b>Connecticut—1.1%</b>   |      |          |                        |           |
| Connecticut Resources Recovery<br>Authority, Special Obligation<br>Revenue (American REF-FUEL<br>Company of Southeastern<br>Connecticut Project)                                      | 6.45 | 11/15/22 | 4,985,000              | 4,994,372 |
| <b>Florida—5.6%</b>   |      |          |                        |           |
| Citizens Property Insurance<br>Corporation, Personal Lines<br>Account/Commercial<br>Lines Account Senior<br>Secured Revenue   | 5.00 | 6/1/22   | 3,500,000              | 4,189,885 |
| Mid-Bay Bridge Authority,<br>Springing Lien Revenue   | 7.25 | 10/1/34  | 5,000,000 <sup>C</sup> | 6,595,100 |
| Palm Beach County Health<br>Facilities Authority, Retirement<br>Community Revenue (Adult<br>Communities Total Services, Inc.<br>Retirement—Life Communities, Inc.<br>Obligated Group) | 5.50 | 11/15/33 | 6,825,000              | 7,642,635 |
| Saint Johns County Industrial<br>Development Authority, Revenue<br>(Presbyterian Retirement<br>Communities Project)   | 6.00 | 8/1/45   | 3,500,000              | 3,986,675 |
| South Lake County Hospital<br>District, Revenue (South Lake<br>Hospital, Inc.)  | 6.25 | 4/1/39   | 2,500,000              | 2,930,125 |
| <b>Georgia—3.6%</b>   |      |          |                        |           |
| Atlanta,<br>Airport General Revenue   | 5.00 | 1/1/26   | 3,500,000 <sup>C</sup> | 4,113,130 |
| Atlanta,<br>Water and Wastewater Revenue  | 6.00 | 11/1/28  | 4,865,000              | 6,082,710 |

The Fund

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STATEMENT OF INVESTMENTS *(continued)*

| <b>Long-Term Municipal<br/>Investments (continued)</b>  | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| <b>Georgia (continued)</b>  |                    |                  |                          |            |
| Atlanta,<br>Water and Wastewater Revenue<br>(Insured; Assured Guaranty<br>Municipal Corp.)  | 5.25               | 11/1/34          | 1,000,000                | 1,167,150  |
| Augusta,<br>Airport Revenue<br>Savannah Economic Development<br>Authority, EIR (International<br>Paper Company Project)             | 5.45               | 1/1/31           | 2,500,000 <sup>C</sup>   | 2,503,875  |
|   | 6.20               | 8/1/27           | 2,670,000                | 2,751,568  |
| <b>Hawaii—1.1%</b>  |                    |                  |                          |            |
| Hawaii Department of Budget and<br>Finance, Special Purpose<br>Revenue (Hawai'i Pacific<br>Health Obligated Group)                  | 5.63               | 7/1/30           | 2,500,000                | 2,870,025  |
| Hawaii Department of Budget and<br>Finance, Special Purpose Revenue<br>(Hawaiian Electric Company, Inc.<br>and Subsidiary Projects) | 6.50               | 7/1/39           | 2,000,000                | 2,369,500  |
| <b>Idaho—0%</b>   |                    |                  |                          |            |
| Idaho Housing and Finance<br>Association, SFMR<br>(Collateralized; FNMA)  | 6.35               | 1/1/30           | 185,000                  | 185,414    |
| <b>Illinois—2.0%</b>  |                    |                  |                          |            |
| Chicago,<br>General Airport Third Lien<br>Revenue (Chicago O'Hare<br>International Airport)   | 5.63               | 1/1/35           | 3,000,000 <sup>C</sup>   | 3,605,760  |
| Illinois Finance Authority,<br>Revenue (Sherman<br>Health Systems)  | 5.50               | 8/1/37           | 1,020,000                | 1,134,291  |
| Railsplitter Tobacco Settlement   |                    |                  |                          |            |

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|                            |      |        |                        |           |
|----------------------------|------|--------|------------------------|-----------|
| Authority, Tobacco         |      |        |                        |           |
| Settlement Revenue         | 6.00 | 6/1/28 | 3,600,000              | 4,437,180 |
| <b>Indiana— .7%</b>        |      |        |                        |           |
| Indianapolis Local Public  |      |        |                        |           |
| Improvement Bond Bank,     |      |        |                        |           |
| Revenue (Indianapolis      |      |        |                        |           |
| Airport Authority Project) |      |        |                        |           |
| (Insured; AMBAC)           | 5.00 | 1/1/36 | 3,000,000 <sup>c</sup> | 3,190,410 |

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| <b>Long-Term Municipal Investments (continued)</b>  | Coupon Rate (%) | Maturity Date | Principal Amount (\$)  | Value (\$) |
|---|-----------------|---------------|------------------------|------------|
| <b>Iowa— .4%</b>  |                 |               |                        |            |
| Tobacco Settlement Authority of Iowa, Tobacco Settlement  |                 |               |                        |            |
| Asset-Backed Bonds  | 5.60            | 6/1/34        | 2,000,000              | 1,958,420  |
| <b>Kentucky— .3%</b>  |                 |               |                        |            |
| Louisville/Jefferson County Metro Government, Health Facilities   |                 |               |                        |            |
| Revenue (Jewish Hospital and Saint Mary's HealthCare, Inc. Project) (Prerefunded)   | 6.13            | 2/1/18        | 1,000,000 <sup>e</sup> | 1,277,170  |
| <b>Louisiana— 1.2%</b>  |                 |               |                        |            |
| Lakeshore Villages Master Community Development District, Special Assessment Revenue  | 5.25            | 7/1/17        | 1,987,000 <sup>f</sup> | 795,297    |
| Louisiana Local Government Environmental Facilities and Community Development Authority, Revenue (Westlake Chemical Corporation Projects) | 6.75            | 11/1/32       | 4,000,000              | 4,540,120  |
| <b>Maine— .6%</b>   |                 |               |                        |            |
| Maine Health and Higher Educational Facilities Authority, Revenue (MaineGeneral Medical Center Issue)                                     | 7.50            | 7/1/32        | 2,000,000              | 2,601,760  |
| <b>Massachusetts— 11.5%</b>   |                 |               |                        |            |
| Barclays Capital Municipal Trust  |                 |               |                        |            |

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|   |      |        |                |            |
|---|------|--------|----------------|------------|
| Receipts (Massachusetts Health and Educational Facilities Authority, Revenue (Massachusetts Institute of Technology Issue)) | 5.00 | 7/1/38 | 10,200,000 a,b | 11,904,522 |
| JPMorgan Chase Putters/Drivers Trust (Massachusetts, Consolidated Loan)   | 5.00 | 4/1/19 | 6,400,000 a,b  | 7,952,256  |
| JPMorgan Chase Putters/Drivers Trust (Massachusetts Development Finance Agency, Revenue (Harvard University Issue))         | 5.25 | 2/1/34 | 10,000,000 a,b | 12,442,300 |

The Fund

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STATEMENT OF INVESTMENTS (continued)

| <b>Long-Term Municipal Investments (continued)</b>  | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|-----------------|---------------|-----------------------|------------|
| <b>Massachusetts (continued)</b>  |                 |               |                       |            |
| Massachusetts Development Finance Agency, Revenue (Tufts Medical Center Issue)                  | 7.25            | 1/1/32        | 2,500,000             | 3,219,350  |
| Massachusetts Health and Educational Facilities Authority, Revenue (Suffolk University Issue)   | 6.25            | 7/1/30        | 5,000,000             | 5,943,100  |
| Massachusetts Housing Finance Agency, Housing Revenue   | 7.00            | 12/1/38       | 4,575,000             | 5,343,509  |
| Massachusetts Housing Finance Agency, SFHR  | 5.00            | 12/1/31       | 5,575,000             | 5,788,021  |
| <b>Michigan—8.3%</b>  |                 |               |                       |            |
| Detroit, Sewage Disposal System Senior Lien Revenue (Insured; Assured Guaranty Municipal Corp.) | 7.50            | 7/1/33        | 3,500,000             | 4,469,675  |
| Detroit, Water Supply System Senior   |                 |               |                       |            |

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|   |      |          |           |           |
|---|------|----------|-----------|-----------|
| Lien Revenue  | 5.00 | 7/1/31   | 3,780,000 | 4,116,760 |
| Detroit,<br>Water Supply System Senior                        |      |          |           |           |
| Lien Revenue  | 5.00 | 7/1/36   | 3,290,000 | 3,518,359 |
| Kent Hospital Finance Authority,<br>Revenue (Metropolitan     |      |          |           |           |
| Hospital Project)   | 6.00 | 7/1/35   | 2,000,000 | 2,107,840 |
| Michigan Finance Authority,<br>Clean Water Revolving          |      |          |           |           |
| Fund Revenue  | 5.00 | 10/1/31  | 2,000,000 | 2,483,820 |
| Michigan Strategic Fund,<br>LOR (State of Michigan            |      |          |           |           |
| Cadillac Place Office   |      |          |           |           |
| Building Project)   | 5.25 | 10/15/31 | 4,500,000 | 5,270,265 |
| Michigan Strategic Fund,<br>SWDR (Genesee Power               |      |          |           |           |
| Station Project)  | 7.50 | 1/1/21   | 6,620,000 | 6,620,927 |
| Royal Oak Hospital Finance<br>Authority, HR (William Beaumont |      |          |           |           |
| Hospital Obligated Group)                                     | 8.00 | 9/1/29   | 5,000,000 | 6,501,500 |

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| <b>Long-Term Municipal<br/>Investments (continued)</b>   | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|--|--------------------|------------------|--------------------------|------------|
| <b>Michigan (continued)</b>  |                    |                  |                          |            |
| Wayne County Airport Authority,<br>Airport Revenue (Detroit<br>Metropolitan Wayne County<br>Airport) (Insured; National<br>Public Finance Guarantee Corp.) | 5.00               | 12/1/34          | 2,450,000 <sup>c</sup>   | 2,557,800  |
| <b>Minnesota—0.6%</b>  |                    |                  |                          |            |
| Tobacco Securitization Authority<br>of Minnesota, Tobacco<br>Settlement Revenue Bonds  | 5.25               | 3/1/31           | 2,500,000                | 2,815,025  |
| <b>Nevada—1.3%</b>   |                    |                  |                          |            |
| Clark County,<br>Passenger Facility Charge<br>Revenue (Las Vegas-McCarran<br>International Airport)  | 5.00               | 7/1/30           | 5,000,000 <sup>c</sup>   | 5,773,650  |



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| <b>New Jersey—3.5%</b>  |      |          |                        |           |
|---|------|----------|------------------------|-----------|
| New Jersey Economic Development Authority, School Facilities                            |      |          |                        |           |
| Construction Revenue  | 5.50 | 12/15/29 | 5,000,000              | 5,988,350 |
| New Jersey Economic Development Authority, Special Facility                             |      |          |                        |           |
| Revenue (Continental Airlines, Inc. Project)  |      |          |                        |           |
| Airlines, Inc. Project)   | 5.13 | 9/15/23  | 2,500,000 <sup>c</sup> | 2,566,575 |
| New Jersey Economic Development Authority, Water Facilities                             |      |          |                        |           |
| Revenue (New Jersey—American Water Company, Inc. Project)                               |      |          |                        |           |
| Water Company, Inc. Project)  | 5.70 | 10/1/39  | 3,000,000              | 3,418,950 |
| Tobacco Settlement Financing Corporation of New Jersey, Tobacco Settlement              |      |          |                        |           |
| Asset-Backed Bonds  | 4.50 | 6/1/23   | 1,475,000              | 1,467,684 |
| Tobacco Settlement Financing Corporation of New Jersey, Tobacco Settlement              |      |          |                        |           |
| Asset-Backed Bonds  | 5.00 | 6/1/41   | 1,000,000              | 904,540   |
| Tobacco Settlement Financing Corporation of New Jersey, Tobacco Settlement Asset-Backed |      |          |                        |           |
| Bonds (Prerefunded)   | 7.00 | 6/1/13   | 1,595,000 <sup>e</sup> | 1,649,405 |

The Fund

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STATEMENT OF INVESTMENTS (continued)

| <b>Long-Term Municipal Investments (continued)</b>                      | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|---|-----------------|---------------|-----------------------|------------|
| <b>New Mexico—1.2%</b>  |                 |               |                       |            |
| Farmington, PCR (Public Service Company of New Mexico San Juan Project) |                 |               |                       |            |
|   | 5.90            | 6/1/40        | 5,000,000             | 5,638,150  |
| <b>New York—15.4%</b>   |                 |               |                       |            |
| Austin Trust (Port Authority of New York and New Jersey, Consolidated   |                 |               |                       |            |

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|  |      |          |            |       |            |
|--|------|----------|------------|-------|------------|
| Bonds, 151st Series)   | 6.00 | 9/15/28  | 10,000,000 | a,b,c | 12,068,500 |
| Barclays Capital Municipal Trust<br>Receipts (New York City<br>Transitional Finance Authority,<br>Future Tax Secured Revenue)                              | 5.00 | 5/1/30   | 4,488,203  | a,b   | 5,317,798  |
| Barclays Capital Municipal Trust<br>Receipts (New York City<br>Transitional Finance<br>Authority, Future Tax Secured<br>Subordinate Revenue)               | 5.50 | 11/1/27  | 5,000,000  | a,b   | 6,395,750  |
| JPMorgan Chase Putters/Drivers<br>Trust (New York City<br>Transitional Finance<br>Authority, Future Tax Secured<br>Subordinate Revenue)                    | 5.25 | 11/1/18  | 5,000,000  | a,b   | 6,302,750  |
| Long Island Power Authority,<br>Electric System General Revenue  | 6.25 | 4/1/33   | 3,000,000  |       | 3,843,960  |
| Metropolitan Transportation<br>Authority, Transportation<br>Revenue  | 6.25 | 11/15/23 | 9,425,000  | c     | 12,139,589 |
| Metropolitan Transportation<br>Authority, Transportation<br>Revenue  | 5.00 | 11/1/28  | 1,500,000  | c     | 1,822,470  |
| New York City Educational<br>Construction Fund, Revenue  | 6.50 | 4/1/28   | 2,785,000  |       | 3,636,792  |
| New York City Industrial<br>Development Agency, Senior<br>Airport Facilities Revenue<br>(Transportation Infrastructure<br>Properties, LLC Obligated Group) | 5.00 | 7/1/22   | 2,165,000  | c     | 2,357,490  |

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| <b>Long-Term Municipal<br/>Investments (continued)</b>  | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| <b>New York (continued)</b>   |                    |                  |                          |            |
| New York City Industrial<br>Development Agency, Special<br>Facility Revenue (American<br>Airlines, Inc. John F. Kennedy |                    |                  |                          |            |

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|  |      |         |                           |            |
|--|------|---------|---------------------------|------------|
| International Airport Project)   | 7.75 | 8/1/31  | 5,000,000 <sup>c,f</sup>  | 5,284,650  |
| New York State Dormitory Authority, Revenue (Orange Regional Medical Center Obligated Group)   | 6.25 | 12/1/37 | 2,500,000                 | 2,804,625  |
| New York State Dormitory Authority, Revenue (Suffolk County Judicial Facility)   | 9.50 | 4/15/14 | 605,000                   | 650,526    |
| Niagara Area Development Corporation, Solid Waste Disposal Facility Revenue (Covanta Energy Project)   | 5.25 | 11/1/42 | 2,000,000                 | 2,042,720  |
| Port Authority of New York and New Jersey, Special Project Bonds (JFK International Air Terminal LLC Project)                                      | 6.00 | 12/1/36 | 4,710,000 <sup>c</sup>    | 5,634,620  |
| <b>North Carolina—2.6%</b>   |      |         |                           |            |
| Barclays Capital Municipal Trust Receipts (North Carolina Medical Care Commission, Health Care Facilities Revenue (Duke University Health System)) | 5.00 | 6/1/42  | 10,000,000 <sup>a,b</sup> | 11,917,700 |
| <b>Ohio—5.8%</b>   |      |         |                           |            |
| Buckeye Tobacco Settlement Financing Authority, Tobacco Settlement Asset-Backed Bonds  | 5.88 | 6/1/47  | 2,500,000                 | 2,229,925  |
| Butler County, Hospital Facilities Revenue (UC Health)   | 5.50 | 11/1/40 | 3,000,000                 | 3,412,890  |
| Cleveland, Airport System Revenue  | 5.00 | 1/1/30  | 2,000,000 <sup>c</sup>    | 2,322,060  |

The Fund

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STATEMENT OF INVESTMENTS *(continued)*

| <b>Long-Term Municipal Investments (continued)</b> | Coupon Rate (%) | Maturity Date | Principal Amount (\$) | Value (\$) |
|--|-----------------|---------------|-----------------------|------------|
|--|-----------------|---------------|-----------------------|------------|

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**Ohio (continued)**

|   |      |         |                          |           |
|---|------|---------|--------------------------|-----------|
| Ohio Air Quality Development Authority, Air Quality Revenue (Ohio Valley Electric Corporation Project)  | 5.63 | 10/1/19 | 4,200,000                | 5,097,834 |
| Port of Greater Cincinnati Development Authority, Tax Increment Development Revenue (Fairfax Village Red Bank Infrastructure Project)                             | 5.63 | 2/1/36  | 2,530,000 <sup>b</sup>   | 2,206,615 |
| Southeastern Ohio Port Authority, Hospital Facilities Improvement Revenue (Memorial Health System Obligated Group Project)  | 6.00 | 12/1/42 | 2,000,000                | 2,187,220 |
| Toledo-Lucas County Port Authority, Special Assessment Revenue (Crocker Park Public Improvement Project)  | 5.38 | 12/1/35 | 3,000,000                | 3,095,400 |
| University of Akron, General Receipts Bonds (Insured; Assured Guaranty Municipal Corp.)   | 5.00 | 1/1/22  | 5,000,000                | 6,050,650 |
| <b>Oregon—.3%</b>   |      |         |                          |           |
| Warm Springs Reservation Confederated Tribes, Hydroelectric Revenue (Pelton Round Butte Project)  | 6.38 | 11/1/33 | 1,500,000                | 1,592,850 |
| <b>Pennsylvania—2.0%</b>  |      |         |                          |           |
| JPMorgan Chase Putters/Drivers Trust (Geisinger Authority, Health System Revenue (Geisinger Health System))   | 5.13 | 6/1/35  | 3,000,000 <sup>a,b</sup> | 3,457,080 |
| Philadelphia, GO  | 6.50 | 8/1/41  | 4,700,000                | 5,875,940 |
| <b>Rhode Island—1.4%</b>  |      |         |                          |           |
| Rhode Island Health and Educational Building Corporation, Hospital Financing Revenue (Lifespan Obligated Group Issue) (Insured; Assured Guaranty Municipal Corp.) | 7.00 | 5/15/39 | 5,000,000                | 6,173,200 |

| <b>Long-Term Municipal Investments (continued)</b>  | Coupon Rate (%) | Maturity Date | Principal Amount (\$)     | Value (\$) |
|---|-----------------|---------------|---------------------------|------------|
| <b>Tennessee—1.5%</b>   |                 |               |                           |            |
| Metropolitan Government of Nashville and Davidson County Health and Educational Facilities Board, Revenue (The Vanderbilt University)   | 5.50            | 10/1/29       | 2,500,000                 | 3,117,000  |
| Metropolitan Government of Nashville and Davidson County Health and Educational Facilities Board, Revenue (The Vanderbilt University)   | 5.50            | 10/1/34       | 3,000,000                 | 3,709,800  |
| <b>Texas—20.2%</b>  |                 |               |                           |            |
| Barclays Capital Municipal Trust Receipts (Leander Independent School District, Unlimited Tax School Building Bonds (Permanent School Fund Guarantee Program))  | 5.00            | 8/15/40       | 9,997,299 <sup>a,b</sup>  | 11,778,299 |
| Barclays Capital Municipal Trust Receipts (Texas A&M University System Board of Regents, Financing System Revenue) Dallas and Fort Worth, Joint Improvement Revenue (Dallas/Fort Worth International Airport) | 5.00            | 5/15/39       | 13,160,000 <sup>a,b</sup> | 15,332,321 |
| Dallas-Fort Worth International Airport Facility Improvement Corporation, Revenue (Learjet Inc. Project)  | 5.00            | 11/1/42       | 5,000,000 <sup>c</sup>    | 5,548,000  |
| Gulf Coast Industrial Development Authority, SWDR (CITGO Petroleum Corporation Project)   | 6.15            | 1/1/16        | 3,000,000 <sup>c</sup>    | 3,005,820  |
| Harris County Health Facilities Development Corporation, HR   | 4.88            | 5/1/25        | 1,000,000                 | 1,029,480  |

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|   |      |          |           |            |
|---|------|----------|-----------|------------|
| (Memorial Hermann<br>Healthcare System)<br>Houston,<br>Combined Utility System First<br>Lien Revenue (Insured; Assured<br>Guaranty Municipal Corp.) | 7.25 | 12/1/35  | 9,290,000 | 11,797,835 |
|   | 6.00 | 11/15/36 | 5,000,000 | 6,276,650  |

The Fund

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STATEMENT OF INVESTMENTS *(continued)*

| <b>Long-Term Municipal<br/>Investments (continued)</b>   | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|--|--------------------|------------------|--------------------------|------------|
| <b>Texas (continued)</b>   |                    |                  |                          |            |
| Love Field Airport Modernization<br>Corporation, Special<br>Facilities Revenue (Southwest<br>Airlines Company—Love Field<br>Modernization Program Project) | 5.00               | 11/1/28          | 1,000,000 <sup>C</sup>   | 1,088,880  |
| Matagorda County Navigation<br>District Number One, Revenue<br>(Houston Lighting and<br>Power Company Project)<br>(Insured; AMBAC)                         | 5.13               | 11/1/28          | 4,295,000                | 5,283,537  |
| North Texas Tollway Authority,<br>First Tier System Revenue<br>(Insured; Assured Guaranty<br>Municipal Corp.)  | 5.75               | 1/1/40           | 14,705,000 <sup>C</sup>  | 17,339,401 |
| North Texas Tollway Authority,<br>Second Tier System Revenue   | 5.75               | 1/1/38           | 6,650,000 <sup>C</sup>   | 7,504,857  |
| Texas Department of Housing and<br>Community Affairs, Home<br>Mortgage Revenue<br>(Collateralized: FHLMC,<br>FNMA and GNMA)                                | 11.67              | 7/2/24           | 550,000 <sup>g</sup>     | 572,418    |
| Texas Turnpike Authority,<br>Central Texas Turnpike System<br>Revenue (Insured; AMBAC)   | 5.25               | 8/15/42          | 5,375,000 <sup>C</sup>   | 5,397,414  |
| <b>Vermont—.9%</b>   |                    |                  |                          |            |

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|  |       |         |                        |            |
|--|-------|---------|------------------------|------------|
| Burlington,<br>Airport Revenue   | 3.50  | 7/1/18  | 4,000,000 <sup>c</sup> | 4,000,000  |
| <b>Virginia—7.7%</b>   |       |         |                        |            |
| Henrico County Industrial<br>Development Authority, Revenue<br>(Bon Secours Health System)<br>(Insured; Assured Guaranty<br>Municipal Corp.) | 11.20 | 8/23/27 | 7,050,000 <sup>g</sup> | 9,558,249  |
| Virginia Commonwealth<br>Transportation Board,<br>Transportation Capital<br>Projects Revenue   | 5.00  | 5/15/21 | 8,565,000 <sup>c</sup> | 11,058,271 |
| Virginia Commonwealth<br>Transportation Board,<br>Transportation Capital<br>Projects Revenue   | 5.00  | 5/15/22 | 3,840,000 <sup>c</sup> | 4,996,608  |

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| <b>Long-Term Municipal<br/>Investments (continued)</b>   | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|--|--------------------|------------------|--------------------------|------------|
| <b>Virginia (continued)</b>  |                    |                  |                          |            |
| Virginia Housing Development<br>Authority, Commonwealth<br>Mortgage Revenue  | 6.25               | 7/1/31           | 4,845,000                | 5,630,229  |
| Washington County Industrial<br>Development Authority, HR<br>(Mountain States Health Alliance)                         | 7.75               | 7/1/38           | 3,000,000                | 3,784,350  |
| <b>Washington—5.3%</b>   |                    |                  |                          |            |
| Barclays Capital Municipal Trust<br>Receipts (King County,<br>Sewer Revenue)   | 5.00               | 1/1/29           | 8,577,246 <sup>a,b</sup> | 10,435,846 |
| Seattle,<br>Water System Revenue   | 5.00               | 9/1/24           | 5,000,000                | 6,410,750  |
| Washington Health Care Facilities<br>Authority, Mortgage Revenue<br>(Highline Medical Center)<br>(Collateralized; FHA) | 6.25               | 8/1/36           | 5,975,000                | 7,306,170  |
| <b>West Virginia—1.9%</b>  |                    |                  |                          |            |
| The County Commission of Harrison  |                    |                  |                          |            |

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|  |      |          |                        |           |
|--|------|----------|------------------------|-----------|
| County, SWDR (Allegheny Energy<br>Supply Company, LLC Harrison<br>Station Project)   | 5.50 | 10/15/37 | 7,920,000              | 8,462,758 |
| <b>Wisconsin—1.2%</b>  |      |          |                        |           |
| Public Finance Agency,<br>Senior Airport Facilities<br>Revenue (Transportation<br>Infrastructure Properties, LLC<br>Obligated Group) | 5.00 | 7/1/42   | 1,500,000 <sup>C</sup> | 1,533,180 |
| Wisconsin Health and Educational<br>Facilities Authority, Revenue<br>(Aurora Health Care, Inc.)                                      | 6.40 | 4/15/33  | 4,000,000              | 4,049,560 |
| <b>U.S. Related—6.3%</b>   |      |          |                        |           |
| Puerto Rico Aqueduct and<br>Sewer Authority,<br>Senior Lien Revenue  | 5.13 | 7/1/37   | 5,000,000              | 5,125,400 |
| Puerto Rico Commonwealth,<br>Public Improvement GO   | 5.50 | 7/1/32   | 1,500,000              | 1,596,525 |
| Puerto Rico Commonwealth,<br>Public Improvement GO   | 6.00 | 7/1/39   | 1,610,000              | 1,734,389 |
| Puerto Rico Commonwealth,<br>Public Improvement GO   | 6.50 | 7/1/40   | 2,390,000              | 2,746,468 |

The Fund

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STATEMENT OF INVESTMENTS *(continued)*

| <b>Long-Term Municipal<br/>Investments (continued)</b>  | Coupon<br>Rate (%) | Maturity<br>Date | Principal<br>Amount (\$) | Value (\$) |
|---|--------------------|------------------|--------------------------|------------|
| <b>U.S. Related (continued)</b>   |                    |                  |                          |            |
| Puerto Rico Electric Power<br>Authority, Power Revenue  | 5.25               | 7/1/24           | 1,895,000                | 2,058,292  |
| Puerto Rico Sales Tax Financing<br>Corporation, Sales Tax Revenue<br>(First Subordinate Series) | 5.38               | 8/1/39           | 2,500,000                | 2,714,725  |
| Puerto Rico Sales Tax Financing<br>Corporation, Sales Tax Revenue<br>(First Subordinate Series) | 6.00               | 8/1/42           | 10,000,000               | 11,357,300 |
| Virgin Islands Public Finance   |                    |                  |                          |            |



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|   |      |         |                      |                    |
|---|------|---------|----------------------|--------------------|
| Authority, Revenue (Virgin Islands Matching Fund Loan Notes) (Senior Lien/Capital Projects)   | 5.00 | 10/1/39 | 1,250,000            | 1,336,000          |
| <b>Total Long-Term Municipal Investments</b><br>(cost \$561,775,186)  |      |         |                      | <b>646,723,815</b> |
| <b>Short-Term Municipal Investments— .7%</b>  |      |         |                      |                    |
| <b>California— .0%</b>  |      |         |                      |                    |
| California Infrastructure and Economic Development Bank, Revenue, Refunding (Los Angeles County Museum of Natural History Foundation) (LOC; Wells Fargo Bank) | 0.14 | 12/3/12 | 100,000 <sup>h</sup> | 100,000            |
| <b>New York— .2%</b>  |      |         |                      |                    |
| New York City, GO Notes (LOC; JPMorgan Chase Bank)  | 0.16 | 12/3/12 | 500,000 <sup>h</sup> | 500,000            |
| New York City, GO Notes (LOC; JPMorgan Chase Bank)  | 0.17 | 12/3/12 | 400,000 <sup>h</sup> | 400,000            |

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| <b>Short-Term Municipal Investments (continued)</b>  | Coupon Rate (%) | Maturity Date | Principal Amount (\$)  | Value (\$)            |
|--|-----------------|---------------|------------------------|-----------------------|
| <b>Pennsylvania— .5%</b>   |                 |               |                        |                       |
| Geisinger Authority, Health System Revenue (Geisinger Health System) (Liquidity Facility; JPMorgan Chase Bank) | 0.17            | 12/3/12       | 2,300,000 <sup>h</sup> | 2,300,000             |
| <b>Total Short-Term Municipal Investments</b><br>(cost \$3,300,000)  |                 |               |                        | <b>3,300,000</b>      |
| <b>Total Investments</b> (cost \$565,075,186)  |                 |               | <b>142.6 %</b>         | <b>650,023,815</b>    |
| <b>Liabilities, Less Cash and Receivables</b>  |                 |               | <b>(12.0 %)</b>        | <b>(54,817,882 )</b>  |
| <b>Preferred Stock, at redemption value</b>  |                 |               | <b>(30.6 %)</b>        | <b>(139,500,000 )</b> |

|   |                |                    |
|---|----------------|--------------------|
| <b>Net Assets Applicable to Common Shareholders</b> | <b>100.0 %</b> | <b>455,705,933</b> |
|---|----------------|--------------------|

*a Collateral for floating rate borrowings.*

*b Securities exempt from registration pursuant to Rule 144A under the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At November 30, 2012, these securities were valued at \$144,147,455 or 31.6% of net assets applicable to Common Shareholders.*

*c At November 30, 2012, the fund had \$145,001,934 or 31.8% of net assets applicable to Common Shareholders*

*invested in securities whose payment of principal and interest is dependent upon revenues generated from transportation.*

*d Security issued with a zero coupon. Income is recognized through the accretion of discount.*

*e These securities are prerefunded; the date shown represents the prerefunded date. Bonds which are prerefunded are collateralized by U.S. Government securities which are held in escrow and are used to pay principal and interest on the municipal issue and to retire the bonds in full at the earliest refunding date.*

*f Non-income producing—security in default.*

*g Inverse floater security—the interest rate is subject to change periodically. Rate shown is the interest rate in effect at November 30, 2012.*

*h Variable rate demand note—rate shown is the interest rate in effect at November 30, 2012. Maturity date represents the next demand date, or the ultimate maturity date if earlier.*

The Fund

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STATEMENT OF INVESTMENTS *(continued)*

Summary of Abbreviations

|              |   |                |  |
|--------------|---|----------------|--|
| <b>ABAG</b>  | Association of Bay Area Governments           | <b>ACA</b>     | American Capital Access                |
| <b>AGC</b>   | ACE Guaranty Corporation                      | <b>AGIC</b>    | Asset Guaranty Insurance Company       |
| <b>AMBAC</b> | American Municipal Bond Assurance Corporation | <b>ARRN</b>    | Adjustable Rate Receipt Notes          |
| <b>BAN</b>   | Bond Anticipation Notes                       | <b>BPA</b>     | Bond Purchase Agreement                |
| <b>CIFG</b>  | CDC Ixis Financial Guaranty                   | <b>COP</b>     | Certificate of Participation           |
| <b>CP</b>    | Commercial Paper                              | <b>DRIVERS</b> | Derivative Inverse Tax-Exempt Receipts |
| <b>EDR</b>   | Economic Development Revenue                  | <b>EIR</b>     | Environmental Improvement Revenue      |
| <b>FGIC</b>  | Financial Guaranty Insurance Company          | <b>FHA</b>     | Federal Housing Administration         |
| <b>FHLB</b>  | Federal Home                                  | <b>FHLMC</b>   | Federal Home Loan Mortgage             |

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|                 |   |                |   |
|-----------------|---|----------------|---|
|                 | Loan Bank                                       |                | Corporation   |
| <b>FNMA</b>     | Federal National<br>Mortgage Association        | <b>GAN</b>     | Grant Anticipation Notes                            |
| <b>GIC</b>      | Guaranteed Investment<br>Contract               | <b>GNMA</b>    | Government National Mortgage<br>Association         |
| <b>GO</b>       | General Obligation                              | <b>HR</b>      | Hospital Revenue                                    |
| <b>IDB</b>      | Industrial Development Board                    | <b>IDC</b>     | Industrial Development Corporation                  |
| <b>IDR</b>      | Industrial Development<br>Revenue               | <b>LIFERS</b>  | Long Inverse Floating<br>Exempt Receipts            |
| <b>LOC</b>      | Letter of Credit                                | <b>LOR</b>     | Limited Obligation Revenue                          |
| <b>LR</b>       | Lease Revenue                                   | <b>MERLOTS</b> | Municipal Exempt Receipt<br>Liquidity Option Tender |
| <b>MFHR</b>     | Multi-Family Housing Revenue                    | <b>MFMR</b>    | Multi-Family Mortgage Revenue                       |
| <b>PCR</b>      | Pollution Control Revenue                       | <b>PILOT</b>   | Payment in Lieu of Taxes                            |
| <b>P-FLOATS</b> | Puttable Floating Option<br>Tax-Exempt Receipts | <b>PUTTERS</b> | Puttable Tax-Exempt Receipts                        |
| <b>RAC</b>      | Revenue Anticipation Certificates               | <b>RAN</b>     | Revenue Anticipation Notes                          |
| <b>RAW</b>      | Revenue Anticipation Warrants                   | <b>ROCS</b>    | Reset Options Certificates                          |
| <b>RRR</b>      | Resources Recovery Revenue                      | <b>SAAN</b>    | State Aid Anticipation Notes                        |
| <b>SBPA</b>     | Standby Bond Purchase Agreement                 | <b>SFHR</b>    | Single Family Housing Revenue                       |
| <b>SFMR</b>     | Single Family Mortgage Revenue                  | <b>SONYMA</b>  | State of New York Mortgage Agency                   |
| <b>SPEARS</b>   | Short Puttable Exempt<br>Adjustable Receipts    | <b>SWDR</b>    | Solid Waste Disposal Revenue                        |
| <b>TAN</b>      | Tax Anticipation Notes                          | <b>TAW</b>     | Tax Anticipation Warrants                           |
| <b>TRAN</b>     | Tax and Revenue Anticipation Notes              | <b>XLCA</b>    | XL Capital Assurance                                |

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Summary of Combined Ratings (Unaudited)

| Fitch                  | or | Moody's                | or | Standard & Poor's      | Value (%) <sup>†</sup> |
|------------------------|----|------------------------|----|------------------------|------------------------|
| AAA                    |    | Aaa                    |    | AAA                    | 6.6                    |
| AA                     |    | Aa                     |    | AA                     | 31.5                   |
| A                      |    | A                      |    | A                      | 32.9                   |
| BBB                    |    | Baa                    |    | BBB                    | 19.3                   |
| BB                     |    | Ba                     |    | BB                     | 4.2                    |
| B                      |    | B                      |    | B                      | 2.1                    |
| F1                     |    | MIG1/P1                |    | SP1/A1                 | .5                     |
| Not Rated <sup>i</sup> |    | Not Rated <sup>i</sup> |    | Not Rated <sup>i</sup> | 2.9                    |
|                        |    |                        |    |                        | <b>100.0</b>           |

† Based on total investments.

i Securities which, while not rated by Fitch, Moody's and Standard & Poor's, have been determined by the Manager to be of comparable quality to those rated securities in which the fund may invest.

See notes to financial statements.

The Fund

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## STATEMENT OF ASSETS AND LIABILITIES

November 30, 2012

|   | Cost        | Value              |
|---|-------------|--------------------|
| <b>Assets (\$):</b>   |             |                    |
| Investments in securities—See Statement of Investments  | 565,075,186 | 650,023,815        |
| Interest receivable   |             | 9,175,347          |
| Prepaid expenses  |             | 12,918             |
|   |             | <b>659,212,080</b> |
| <b>Liabilities (\$):</b>  |             |                    |
| Due to The Dreyfus Corporation and affiliates—Note 2(a)   |             | 310,211            |
| Cash overdraft due to Custodian   |             | 2,274,752          |
| Payable for floating rate notes issued—Note 3   |             | 57,128,615         |
| Payable for investment securities purchased   |             | 4,000,000          |
| Interest and expense payable related to floating rate notes issued—Note 3   |             | 120,965            |
| Commissions payable—Note 1  |             | 7,624              |
| Dividends payable to Preferred Shareholders   |             | 3,481              |
| Accrued expenses  |             | 160,499            |
|   |             | <b>64,006,147</b>  |
| <b>Auction Preferred Stock</b> , Series A, B and C, par value<br>\$.001 per share (5,580 shares issued and outstanding<br>at \$25,000 per share liquidation value)—Note 1 |             | <b>139,500,000</b> |
| <b>Net Assets applicable to Common Shareholders (\$)</b>  |             | <b>455,705,933</b> |
| <b>Composition of Net Assets (\$):</b>  |             |                    |
| Common Stock, par value, \$.001 per share<br>(48,985,391 shares issued and outstanding)   |             | 48,985             |
| Paid-in capital   |             | 417,643,042        |
| Accumulated undistributed investment income—net   |             | 7,188,167          |

|  |                    |
|--|--------------------|
| Accumulated net realized gain (loss) on investments                      | (54,122,890 )      |
| Accumulated net unrealized appreciation<br>(depreciation) on investments | 84,948,629         |
| <b>Net Assets applicable to Common Shareholders (\$)</b>                 | <b>455,705,933</b> |
| <b>Shares Outstanding</b>  |                    |
| (110 million shares of \$.001 par value Common Stock authorized)         | 48,985,391         |
| <b>Net Asset Value, per share of Common Stock (\$)</b>                   | <b>9.30</b>        |

See notes to financial statements.

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## STATEMENT OF OPERATIONS

Year Ended November 30, 2012

|  |                   |
|--|-------------------|
| <b>Investment Income (\$):</b>   |                   |
| <b>Interest Income</b>   | <b>31,242,091</b> |
| <b>Expenses:</b>   |                   |
| Investment advisory fee—Note 2(a)                                      | 2,839,818         |
| Administration fee—Note 2(a)   | 1,419,909         |
| Interest and expense related to floating rate notes issued—Note 3      | 418,379           |
| Commission fees—Note 1   | 237,103           |
| Professional fees  | 97,713            |
| Directors' fees and expenses—Note 2(b)                                 | 75,592            |
| Shareholders' reports  | 50,235            |
| Registration fees  | 47,095            |
| Shareholder servicing costs  | 25,397            |
| Custodian fees—Note 2(a)   | 1,941             |
| Miscellaneous  | 65,122            |
| <b>Total Expenses</b>  | <b>5,278,304</b>  |
| Less—reduction in expenses due to undertaking—Note 2(a)                | (567,891 )        |
| Less—reduction in administration fee—Note 2(a)                         | (127,002 )        |
| <b>Net Expenses</b>  | <b>4,583,411</b>  |
| <b>Investment Income—Net</b>   | <b>26,658,680</b> |
| <b>Realized and Unrealized Gain (Loss) on Investments—Note 3 (\$):</b> |                   |
| Net realized gain (loss) on investments                                | 2,528,678         |
| Net realized gain (loss) on swap transactions                          | 42,976            |
| <b>Net Realized Gain (Loss)</b>  | <b>2,571,654</b>  |
| Net unrealized appreciation (depreciation) on investments              | 57,696,686        |
| <b>Net Realized and Unrealized Gain (Loss) on Investments</b>          | <b>60,268,340</b> |

|  |                   |
|--|-------------------|
| <b>Dividends to Preferred Shareholders</b>           | <b>(358,587 )</b> |
| <b>Net Increase in Net Assets Applicable to</b>      |                   |
| <b>Common Shareholders Resulting from Operations</b> | <b>86,568,433</b> |

See notes to financial statements.

The Fund

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## STATEMENT OF CASH FLOWS

November 30, 2012

|   |               |                      |
|---|---------------|----------------------|
| <b>Cash Flows from Operating Activities (\$):</b>                     |               |                      |
| Interest received   | 32,650,302    |                      |
| Operating expenses paid   | (4,143,141 )  |                      |
| Dividends paid to Preferred Shareholders                              | (358,273 )    |                      |
| Purchases of long-term portfolio securities                           | (93,649,912 ) |                      |
| Net sales of short-term portfolio securities                          | 2,000,000     |                      |
| Proceeds from sales of long-term portfolio securities                 | 89,476,834    |                      |
| Net proceeds from swap transactions                                   | 42,976        |                      |
|   |               | <b>26,018,786</b>    |
| <b>Cash Flows from Financing Activities (\$):</b>                     |               |                      |
| Dividends paid to Common Shareholders                                 | (25,817,910 ) |                      |
| Interest and expense related to floating rate notes issued            | (412,744 )    | <b>(26,230,654 )</b> |
| Decrease in cash  |               | <b>(211,868 )</b>    |
| Cash overdraft at beginning of period                                 |               | (2,062,884 )         |
| <b>Cash overdraft at end of period</b>                                |               | <b>(2,274,752 )</b>  |
| <b>Reconciliation of Net Increase in Net Assets Applicable to</b>     |               |                      |
| <b>Common Shareholders Resulting from Operations to</b>               |               |                      |
| <b>Net Cash Provided by Operating Activities (\$):</b>                |               |                      |
| Net Increase in Net Assets Applicable to Common                       |               |                      |
| Shareholders Resulting From Operations                                |               | <b>86,568,433</b>    |
| <b>Adjustments to reconcile net increase in net assets applicable</b> |               |                      |
| <b>to Common Shareholders resulting from operations to</b>            |               |                      |
| <b>net cash provided by operating activities (\$):</b>                |               |                      |
| Increase in investments in securities, at cost                        |               | (7,785,784 )         |
| Increase in payable for investment securities purchased               |               | 3,084,028            |
| Decrease in interest receivable                                       |               | 567,266              |
| Increase in commissions payable and accrued expenses                  |               | 1,747                |

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|   |                   |
|---|-------------------|
| Decrease in prepaid expenses                                  | 2,302             |
| Increase in Due to The Dreyfus Corporation and affiliates     | 17,842            |
| Increase in dividends payable to Preferred Shareholders       | 314               |
| Interest and expense related to floating rate notes issued    | 418,379           |
| Net unrealized appreciation on investments                    | (57,696,686 )     |
| Net amortization of premiums on investments                   | 840,945           |
| <b>Net Cash Provided by Operating Activities</b>              | <b>26,018,786</b> |
| <b>Supplemental disclosure of cash flow information (\$):</b> |                   |
| Non-cash financing activities:                                |                   |
| Reinvestment of dividends                                     | <b>2,038,862</b>  |

See notes to financial statements.

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STATEMENT OF CHANGES IN NET ASSETS

|  | Year Ended November 30, |                      |
|--|-------------------------|----------------------|
|  | 2012                    | 2011                 |
| <b>Operations (\$):</b>                            |                         |                      |
| Investment income—net                              | 26,658,680              | 27,805,189           |
| Net realized gain (loss) on investments            | 2,571,654               | (21,888,260 )        |
| Net unrealized appreciation                        |                         |                      |
| (depreciation) on investments                      | 57,696,686              | 33,481,801           |
| Dividends to Preferred Shareholders                | (358,587 )              | (436,571 )           |
| <b>Net Increase (Decrease) in Net Assets</b>       |                         |                      |
| <b>Applicable to Common Shareholders</b>           |                         |                      |
| <b>Resulting from Operations</b>                   | <b>86,568,433</b>       | <b>38,962,159</b>    |
| <b>Dividends to Common Shareholders from (\$):</b> |                         |                      |
| <b>Investment income—net</b>                       | <b>(27,856,772 )</b>    | <b>(27,730,629 )</b> |
| <b>Capital Stock Transactions (\$):</b>            |                         |                      |
| <b>Dividends reinvested</b>                        | <b>2,038,862</b>        | <b>1,430,458</b>     |
| <b>Total Increase (Decrease) in Net Assets</b>     |                         |                      |
| <b>Applicable to Common Shareholders</b>           | <b>60,750,523</b>       | <b>12,661,988</b>    |
| <b>Net Assets Applicable to</b>                    |                         |                      |
| <b>Common Shareholders(\$):</b>                    |                         |                      |
| Beginning of Period                                | 394,955,410             | 382,293,422          |
| <b>End of Period</b>                               | <b>455,705,933</b>      | <b>394,955,410</b>   |
| Undistributed investment income—net                | 7,188,167               | 8,944,685            |
| <b>Capital Share Transactions (Shares):</b>        |                         |                      |

**Increase in Common Shares Outstanding**

|  |                |                |
|--|----------------|----------------|
| <b>as a Result of Dividends Reinvested</b> | <b>233,568</b> | <b>185,781</b> |
|--|----------------|----------------|

See notes to financial statements.

The Fund

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**FINANCIAL HIGHLIGHTS**

The following table describes the performance for the fiscal periods indicated. Total return shows how much your investment in the fund would have increased (or decreased) during each period, assuming you had reinvested all dividends and distributions. These figures have been derived from the fund's financial statements, and with respect to common stock, market price data for the fund's common shares.

|  | Year Ended November 30, |              |              |              |                 |
|--|-------------------------|--------------|--------------|--------------|-----------------|
|  | 2012                    | 2011         | 2010         | 2009         | 2008            |
| <b>Per Share Data (\$):</b>                            |                         |              |              |              |                 |
| Net asset value, beginning of period                   | 8.10                    | 7.87         | 7.93         | 6.76         | 8.60            |
| Investment Operations:                                 |                         |              |              |              |                 |
| Investment income—net                                  | .55                     | .57          | .59          | .64          | .63             |
| Net realized and unrealized gain (loss) on investments | 1.23                    | .24          | (.10 )       | 1.02         | (1.86 )         |
| Dividends to Preferred Shareholders                    |                         |              |              |              |                 |
| from investment income—net                             | (.01 )                  | (.01 )       | (.01 )       | (.03 )       | (.14 )          |
| Total from Investment Operations                       | 1.77                    | .80          | .48          | 1.63         | (1.37 )         |
| Distributions to Common Shareholders:                  |                         |              |              |              |                 |
| Dividends from investment income—net                   | (.57 )                  | (.57 )       | (.54 )       | (.46 )       | (.47 )          |
| Net asset value, end of period                         | 9.30                    | 8.10         | 7.87         | 7.93         | 6.76            |
| Market value, end of period                            | 9.79                    | 8.39         | 7.94         | 7.58         | 5.53            |
| <b>Total Return (%)<sup>b</sup></b>                    | <b>24.46</b>            | <b>13.67</b> | <b>11.95</b> | <b>46.74</b> | <b>(24.12 )</b> |

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|   | Year Ended November 30, |      |      |      |      |
|---|-------------------------|------|------|------|------|
|   | 2012                    | 2011 | 2010 | 2009 | 2008 |
| <b>Ratios/Supplemental Data (%):</b>  |                         |      |      |      |      |
| Ratio of total expenses to average net assets applicable to Common Stock <sup>c</sup> |                         |      |      |      |      |
|   | 1.23                    | 1.30 | 1.30 | 1.37 | 1.44 |
| Ratio of net expenses to  |                         |      |      |      |      |



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|   |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|
| average net assets applicable to Common Stock <sup>C</sup>  | 1.07    | 1.16    | 1.16    | 1.21    | 1.30    |
| Ratio of interest and expense related to floating rate notes issued to average net assets applicable to Common Stock <sup>C</sup> | .10     | .10     | .07     | .01     | .12     |
| Ratio of net investment income to average net assets applicable to Common Stock <sup>C</sup>                                      | 6.22    | 7.36    | 7.30    | 8.65    | 7.89    |
| Ratio of total expenses to total average net assets   | .93     | .95     | .91     | .90     | .98     |
| Ratio of net expenses to total average net assets   | .81     | .85     | .81     | .80     | .88     |
| Ratio of interest and expense related to floating rate notes issued to total average net assets                                   | .07     | .07     | .05     | .01     | .08     |
| Ratio of net investment income to total average net assets  | 4.69    | 5.36    | 5.11    | 5.68    | 5.34    |
| Portfolio Turnover Rate   | 15.99   | 20.50   | 25.94   | 31.59   | 53.01   |
| Asset coverage of Preferred Stock, end of period  | 427     | 383     | 356     | 307     | 276     |
| Net Assets, net of Preferred Stock, end of period (\$ x 1,000)  | 455,706 | 394,955 | 382,293 | 384,457 | 327,879 |
| Preferred Stock outstanding, end of period (\$ x 1,000)   | 139,500 | 139,500 | 149,475 | 186,000 | 186,000 |

a Based on average common shares outstanding at each month end.

b Calculated based on market value.

c Does not reflect the effect of dividends to Preferred Shareholders.

See notes to financial statements.

The Fund

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## NOTES TO FINANCIAL STATEMENTS

### NOTE 1—Significant Accounting Policies:

Dreyfus Strategic Municipal Bond Fund, Inc. (the “fund”) is registered under the Investment Company Act of 1940, as amended (the “Act”), as a diversified closed-end management investment company. The fund’s investment objective is to maximize current income exempt from federal

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income tax to the extent consistent with the preservation of capital. The Dreyfus Corporation (the “Manager” or “Dreyfus”), a wholly-owned subsidiary of The Bank of New York Mellon Corporation (“BNY Mellon”), serves as the fund’s investment adviser. The fund’s Common Stock trades on the New York Stock Exchange Amex (the “NYSE”) under the ticker symbol DSM.

The fund has outstanding 1,860 shares of Series A, Series B and Series C, for a total of 5,580 shares, of Auction Preferred Stock (“APS”), with a liquidation preference of \$25,000 per share (plus an amount equal to accumulated but unpaid dividends upon liquidation). APS dividend rates are determined pursuant to periodic auctions or by reference to a market rate. Deutsche Bank Trust Company America, as Auction Agent, receives a fee from the fund for its services in connection with such auctions. The fund also compensates broker-dealers generally at an annual rate of .15%-.25% of the purchase price of the shares of APS.

The fund is subject to certain restrictions relating to the APS. Failure to comply with these restrictions could preclude the fund from declaring any distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of APS at liquidation value. Thus, redemptions of APS may be deemed to be outside of the control of the fund.

The holders of the APS, voting as a separate class, have the right to elect at least two directors. The holders of the APS will vote as a separate class on certain other matters, as required by law. The fund has

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designated Robin A. Melvin and John E. Zuccotti as directors to be elected by the holders of APS.

The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification is the exclusive reference of authoritative U.S. generally accepted accounting principles (“GAAP”) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal laws are also sources of authoritative GAAP for SEC registrants. The fund’s financial statements are prepared in accordance with GAAP, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

The fund enters into contracts that contain a variety of indemnifications. The fund’s maximum exposure under these arrangements is unknown. The fund does not anticipate recognizing any loss related to these arrangements.

**(a) Portfolio valuation:** The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price). GAAP establishes a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Additionally, GAAP provides guidance on determining whether the volume and activity in a market has decreased significantly and whether such a decrease in activity results in transactions that are not orderly. GAAP requires enhanced disclosures around valuation inputs and techniques used during annual and interim periods.

The Fund

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### NOTES TO FINANCIAL STATEMENTS *(continued)*

Various inputs are used in determining the value of the fund’s investments relating to fair value measurements. These inputs are summarized in the three broad levels listed below:

**Level 1**—unadjusted quoted prices in active markets for identical investments.

**Level 2**—other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.).

**Level 3**—significant unobservable inputs (including the fund’s own assumptions in determining the fair value of investments).

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The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. Valuation techniques used to value the fund's investments are as follows:

Investments in securities are valued each business day by an independent pricing service (the "Service") approved by the fund's Board of Directors (the "Board"). Investments for which quoted bid prices are readily available and are representative of the bid side of the market in the judgment of the Service are valued at the mean between the quoted bid prices (as obtained by the Service from dealers in such securities) and asked prices (as calculated by the Service based upon its evaluation of the market for such securities). Other investments (which constitute a majority of the portfolio securities) are carried at fair value as determined by the Service, based on methods which include consideration of the following: yields or prices of municipal securities of comparable quality, coupon, maturity and type; indications as to values from dealers; and general market conditions. All of the preceding securities are categorized within Level 2 of the fair value hierarchy. Investments in swap transactions are valued each business day by the Service. Swaps are valued by the Service by using a swap pricing model which incorporates among other factors, default probabilities, recovery rates, credit curves of the underlying issuer and swap spreads

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on interest rates. These securities are generally categorized within Level 2 of the fair value hierarchy.

The Service's procedures are reviewed by Dreyfus under the general supervision of the Board.

When market quotations or official closing prices are not readily available, or are determined not to reflect accurately fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the fund calculates its net asset value, the fund may value these investments at fair value as determined in accordance with the procedures approved by the Board. Certain factors may be considered when fair valuing investments such as: fundamental analytical data, the nature and duration of restrictions on disposition, an evaluation of the forces that influence the market in which the securities are purchased and sold, and public trading in similar securities of the issuer or comparable issuers. These securities are either categorized within Level 2 or 3 depending on the relevant inputs used.

For restricted securities where observable inputs are limited, assumptions about market activity and risk are used and are categorized within Level 3 of the fair value hierarchy.

The following is a summary of the inputs used as of November 30, 2012 in valuing the fund's investments:

|                                  | Level 1—<br>Unadjusted<br>Quoted Prices | Level 2—Other<br>Significant<br>Observable<br>Inputs | Level 3—<br>Significant<br>Unobservable<br>Inputs | Total                |
|----------------------------------|---|--|---|----------------------|
| <b>Assets (\$)</b>               |   |  |   |                      |
| Investments in Securities:       |   |  |   |                      |
| Municipal Bonds                  | —                                       | 650,023,815  | —   | <b>650,023,815</b>   |
| <b>Liabilities (\$)</b>          |   |  |   |                      |
| Floating Rate Notes <sup>†</sup> | —                                       | (57,128,615 )  | —   | <b>(57,128,615 )</b> |

<sup>†</sup> Certain of the fund's liabilities are held at carrying amount, which approximates fair value for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS (continued)

At November 30, 2012, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

**(b) Securities transactions and investment income:** Securities transactions are recorded on a trade date basis. Realized gains and losses from securities transactions are recorded on the identified cost basis. Interest income, adjusted for accretion of discount and amortization of premium on investments, is earned from settlement date and recognized on the accrual basis. Securities purchased or sold on a when-issued or delayed-delivery basis may be settled a month or more after the trade date.

**(c) Dividends to shareholders of Common Stock (“Common Shareholder(s)”)** Dividends are recorded on the ex-dividend date. Dividends from investment income-net are declared and paid monthly. Dividends from net realized capital gains, if any, are normally declared and paid annually, but the fund may make distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code of 1986, as amended (the “Code”). To the extent that net realized capital gains can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gains. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP.

For Common Shareholders who elect to receive their distributions in additional shares of the fund, in lieu of cash, such distributions will be reinvested at the lower of the market price or net asset value per share (but not less than 95% of the market price) as defined in the Dividend Reinvestment and Cash Purchase Plan.

On November 29, 2012, the Board declared a cash dividend of \$0.0475 per share from investment income-net, payable on December 31, 2012 to Common Shareholders of record as of the close of business on December 14, 2012.

**(d) Dividends to Shareholders of APS:** Dividends, which are cumulative, are generally reset every 7 days for each Series of APS pursuant to a process specified in related fund charter documents. Dividend

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rates as of November 30, 2012, for each Series of APS were as follows: Series A-0.274%, Series B-0.274% and Series C-0.274%. These rates reflect the “maximum rates” under the governing instruments as a result of “failed auctions” in which sufficient clearing bids are not received. The average dividend rates for the period ended November 30, 2012 for each Series of APS were as follows: Series A-0.266%, Series B-0.257% and Series C-0.248%.

**(e) Federal income taxes:** It is the policy of the fund to continue to qualify as a regulated investment company, which can distribute tax-exempt dividends, by complying with the applicable provisions of the Code and to make distributions of income and net realized capital gain sufficient to relieve it from substantially all federal income and excise taxes.

As of and during the period ended November 30, 2012, the fund did not have any liabilities for any uncertain tax positions. The fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the Statement of Operations. During the period, the fund did not incur any interest or penalties.

Each of the tax years in the four-year period ended November 30, 2012 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At November 30, 2012, the components of accumulated earnings on a tax basis were as follows: tax-exempt income \$8,370,654, accumulated capital losses \$54,159,939 and unrealized appreciation \$85,125,681. In addition, the fund had \$140,003 of capital losses realized after October 31, 2012, which were deferred for tax purposes to the first day of the following fiscal year.

Under the Regulated Investment Company Modernization Act of 2010 (the “2010 Act”), the fund is permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 (“post-enactment losses”) for an unlimited period. Furthermore, post-enactment

NOTES TO FINANCIAL STATEMENTS *(continued)*

capital loss carryovers retain their character as either short-term or long-term capital losses rather than short-term as they were under previous statute. The 2010 Act requires post-enactment losses to be utilized before the utilization of losses incurred in taxable years prior to the effective date of the 2010 Act (“pre-enactment losses”). As a result of this ordering rule, pre-enactment losses may be more likely to expire unused.

The accumulated capital loss carryover is available for federal income tax purposes to be applied against future net realized capital gains, if any, realized subsequent to November 30, 2012. If not applied, \$1,427,978 of the carryover expires in fiscal year 2015, \$5,522,685 expires in fiscal year 2016, \$20,261,695 expires in fiscal year 2017, \$5,075,623 expires in fiscal year 2018 and \$21,871,958 expires in fiscal year 2019.

The tax character of distributions paid to shareholders during the fiscal periods ended November 30, 2012 and November 30, 2011 were as follows: tax-exempt income \$27,885,959 and \$28,038,726 and ordinary income \$329,400 and \$128,474, respectively.

During the period ended November 30, 2012, as a result of permanent book to tax differences, primarily due to the tax treatment for amortization adjustments and capital loss carryover expiration, the fund decreased accumulated undistributed investment income-net by \$199,839, increased accumulated net realized gain (loss) on investments by \$8,084,079 and decreased paid-in capital by \$7,884,240. Net assets and net asset value per share were not affected by this reclassification.

**(f) New Accounting Pronouncement:** In December 2011, FASB issued Accounting Standards Update No. 2011-11 “Disclosures about Offsetting Assets and Liabilities” (“ASU 2011-11”). These disclosure requirements are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company’s financial position. They also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. In addition, ASU 2011-11 facilitates comparison between those entities that prepare their financial

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statements on the basis of GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards (“IFRS”). ASU 2011-11 requires entities to: disclose both gross and net information about both instruments and transactions eligible for offset in the financial statements; and disclose instruments and transactions subject to an agreement similar to a master netting agreement. ASU 2011-11 is effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. At this time, management is evaluating the implications of ASU 2011-11 and its impact on the fund’s financial statement disclosures.

## NOTE 2—Investment Advisory Fee, Administration Fee and Other Transactions With Affiliates:

**(a)** The fee payable by the fund, pursuant to the provisions of an Investment Advisory Agreement with Dreyfus, is payable monthly based on an annual rate of .50% of the value of the fund’s average weekly net assets (including net assets representing APS outstanding). The fund also has an Administration Agreement with Dreyfus, a Custody Agreement with The Bank of New York Mellon (the “Custodian”), a subsidiary of BNY Mellon and an affiliate of Dreyfus, and a Transfer Agency and Registrar Agreement with BNY Mellon Investment Servicing (US) Inc., a subsidiary of BNY Mellon and an affiliate of Dreyfus. The fund pays in the aggregate for administration, custody and transfer agency services a monthly fee based on an annual rate of .25% of the value of the fund’s average weekly net assets (including net assets representing APS outstanding). All out of pocket transfer agency and custody expenses, including custody transaction expenses, are paid separately by the fund.

Dreyfus has agreed, from December 1, 2011 through May 31, 2013, to waive receipt of a portion of the fund’s investment advisory fee, in the amount of .10% of the value of the fund’s average weekly net assets (including net assets representing APS outstanding). The reduction in expenses, pursuant to the undertaking, amounted to \$567,891 during the period ended November 30, 2012.

The Fund

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NOTES TO FINANCIAL STATEMENTS *(continued)*

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Dreyfus has also agreed, until November 30, 2012, to waive a receipt of a portion of the fund's administration fee. The reduction in administration fee, pursuant to the undertaking, amounted to \$127,002 during the period ended November 30, 2012.

The fund has an arrangement with the custodian bank whereby the fund receives earnings credits from the Custodian when positive cash balances are maintained, which are used to offset custody fees. For financial reporting purposes, the fund includes net earnings credits, as an expense offset in the Statement of Operations.

The fund compensates the Custodian under a custody agreement for providing custodial services for the fund. During the period ended November 30, 2012, the fund was charged \$1,941 for out-of-pocket and custody transaction expenses, pursuant to the custody agreement.

During the period ended November 30, 2012, the fund was charged \$8,650 for services performed by the Chief Compliance Officer and his staff.

The components of "Due to The Dreyfus Corporation and affiliates" in the Statement of Assets and Liabilities consist of: investment advisory fees \$352,328, administration fees \$2,131, Custodian out of pocket fees \$715 and Chief Compliance Officer fees \$3,318, which are offset against an expense reimbursement currently in effect in the amount of \$48,281.

(b) Each Board member also serves as a Board member of other funds within the Dreyfus complex. Annual retainer fees and attendance fees are allocated to each fund based on net assets.

### NOTE 3—Securities Transactions:

The aggregate amount of purchases and sales of investment securities, excluding short-term securities and swap transactions, during the period ended November 30, 2012, amounted to \$96,733,940 and \$89,476,834, respectively.

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**Inverse Floater Securities:** The fund participates in secondary inverse floater structures in which fixed-rate, tax-exempt municipal bonds are transferred to a trust. The trust subsequently issues two or more variable rate securities that are collateralized by the cash flows of the fixed-rate, tax-exempt municipal bonds. One or more of these variable rate securities pays interest based on a short-term floating rate set by a remarketing agent at predetermined intervals. A residual interest tax-exempt security is also created by the trust, which is transferred to the fund, and is paid interest based on the remaining cash flow of the trust, after payment of interest on the other securities and various expenses of the trust.

The fund accounts for the transfer of bonds to the trust as secured borrowings, with the securities transferred remaining in the fund's investments, and the related floating rate certificate securities reflected as fund liabilities in the Statement of Assets and Liabilities.

The average amount of borrowings outstanding under the inverse floater structure during the period ended November 30, 2012, was approximately \$57,128,600, with a related weighted average annualized interest rate of .73%.

**Derivatives:** A derivative is a financial instrument whose performance is derived from the performance of another asset. Each type of derivative instrument that was held by the fund during the period ended November 30, 2012 is discussed below.

**Swap Transactions:** The fund enters into swap agreements to exchange the interest rate on, or return generated by, one nominal instrument for the return generated by another nominal instrument. The fund enters into these agreements to hedge certain market or interest rate risks, to manage the interest rate sensitivity (sometimes called duration) of fixed income securities, to provide a substitute for purchasing or selling particular securities or to increase potential returns.

The Fund

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### NOTES TO FINANCIAL STATEMENTS (continued)

The fund accrues for the interim payments on swap contracts on a daily basis, with the net amount recorded within unrealized appreciation (depreciation) on swap contracts in the Statement of Assets and Liabilities. Once the interim payments are settled in cash, the net amount is recorded as a realized gain (loss) on swaps, in addition to realized gain (loss) recorded upon the termination of swap contracts in the Statement

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of Operations. Upfront payments made and/or received by the fund, are recorded as an asset and/or liability in the Statement of Assets and Liabilities and are recorded as a realized gain or loss ratably over the contract's term/event with the exception of forward starting interest rate swaps which are recorded as realized gains or losses on the termination date. Fluctuations in the value of swap contracts are recorded for financial statement purposes as unrealized appreciation or depreciation on swap transactions.

**Interest Rate Swaps:** Interest rate swaps involve the exchange of commitments to pay and receive interest based on a notional principal amount. The fund may elect to pay a fixed rate and receive a floating rate, or receive a fixed rate and pay a floating rate on a notional principal amount. The net interest received or paid on interest rate swap agreements is included within unrealized appreciation (depreciation) on swap contracts in the Statement of Assets and Liabilities. Interest rate swaps are valued daily and the change, if any, is recorded as an unrealized gain or loss in the Statement of Operations. When a swap contract is terminated early, the fund records a realized gain or loss equal to the difference between the current realized value and the expected cash flows. At November 30, 2012, there were no interest rate swap agreements outstanding.

At November 30, 2012, the cost of investments for federal income tax purposes was \$507,769,519; accordingly, accumulated net unrealized appreciation on investments was \$85,125,681, consisting of \$86,536,256 gross unrealized appreciation and \$1,410,575 gross unrealized depreciation.

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors Dreyfus Strategic Municipal Bond Fund, Inc.

We have audited the accompanying statement of assets and liabilities of Dreyfus Strategic Municipal Bond Fund, Inc., including the statement of investments, as of November 30, 2012, and the related statements of operations and cash flows for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of November 30, 2012 by correspondence with the custodian and others. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Dreyfus Strategic Municipal Bond Fund, Inc. at November 30, 2012, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

New York, New York January 28, 2013

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### ADDITIONAL INFORMATION (Unaudited)

Dividend Reinvestment and Cash Purchase Plan

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Under the fund's Dividend Reinvestment and Cash Purchase Plan (the "Plan"), a holder of Common Stock who has fund shares registered in his name will have all dividends and distributions reinvested automatically by BNY Mellon Investment Servicing (US) Inc., as Plan administrator (the "Administrator"), in additional shares of the fund at the lower of prevailing market price or net asset value (but not less than 95% of market value at the time of valuation) unless such shareholder elects to receive cash as provided below. If market price is equal to or exceeds net asset value, shares will be issued at net asset value. If net asset value exceeds market price or if a cash dividend only is declared, the Administrator, as agent for the Plan participants, will buy fund shares in the open market. A Plan participant is not relieved of any income tax that may be payable on such dividends or distributions.

A Common Shareholder who owns fund shares registered in nominee name through his broker/dealer (i.e., in "street name") may not participate in the Plan, but may elect to have cash dividends and distributions reinvested by his broker/dealer in additional shares of the fund if such service is provided by the broker/dealer; otherwise such dividends and distributions will be treated like any other cash dividend.

A Common Shareholder who has fund shares registered in his name may elect to withdraw from the Plan at any time for a \$5.00 fee and thereby elect to receive cash in lieu of shares of the fund. Changes in elections must be in writing, sent to BNY Mellon Investment Servicing (US) Inc., c/o Shareholder Investment Plan, P.O. Box 35803, Pittsburgh, PA 15252-8035, should include the shareholder's name and address as they appear on the Administrator's records and will be effective only if received more than fifteen days prior to the record date for any distribution.

The Administrator maintains all Common Shareholder accounts in the Plan and furnishes written confirmations of all transactions in the account. Shares in the account of each Plan participant will be held

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by the Administrator in non-certificated form in the name of the participant, and each such participant's proxy will include those shares purchased pursuant to the Plan.

The fund pays the Administrator's fee for reinvestment of dividends and distributions. Plan participants pay a pro rata share of brokerage commissions incurred with respect to the Agent's open market purchases in connection with the reinvestment of dividends or distributions.

The fund reserves the right to amend or terminate the Plan as applied to any dividend or distribution paid subsequent to written notice of the change sent to Plan participants at least 90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by the Administrator on at least 90 days' written notice to Plan participants.

### Level Distribution Policy

The fund's dividend policy is to distribute substantially all of its net investment income to its shareholders on a monthly basis. In order to provide shareholders with a more consistent yield to the current trading price of shares of Common Stock of the fund, the fund may at times pay out less than the entire amount of net investment income earned in any particular month and may at times in any month pay out such accumulated but undistributed income in addition to net investment income earned in that month. As a result, the dividends paid by the fund for any particular month may be more or less than the amount of net investment income earned by the fund during such month.

### Benefits and Risks of Leveraging

The fund utilizes leverage to seek to enhance the yield and net asset value of its Common Stock. These objectives cannot be achieved in all interest rate environments. To leverage, the fund issues Preferred Stock and floating rate notes, which pay dividends or interest at prevailing short-term

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### ADDITIONAL INFORMATION (Unaudited) (continued)

interest rates, and invests the proceeds in long-term municipal bonds. The interest earned on these investments is paid to Common Shareholders in the form of dividends, and the value of these portfolio holdings is reflected in the per share net asset value of the fund's Common Stock. In order for either of these forms of leverage to benefit Common Shareholders, the yield curve must be positively sloped: that is, short-term interest rates must be lower than long-term interest rates. At the same time, a period of generally declining interest rates will benefit Common



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Shareholders. If either of these conditions change along with other factors that may have an effect on preferred dividends or floating rate notes, then the risk of leveraging will begin to outweigh the benefits.

### Supplemental Information

For the period ended November 30, 2012, there were: (i) no material changes in the fund's investment objectives or policies, (ii) no changes in the fund's charter or by-laws that would delay or prevent a change of control of the fund, (iii) no material changes in the principal risk factors associated with investment in the fund, and (iv) no changes in the person primarily responsible for the day-to-day management of the fund's portfolio.

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### IMPORTANT TAX INFORMATION (Unaudited)

In accordance with federal tax law, the fund hereby reports all the dividends paid from investment income-net during its fiscal year ended November 30, 2012 as "exempt-interest dividends" (not generally subject to regular federal income tax), except \$329,400 that is being reported as an ordinary income distribution for reporting purposes. Where required by federal tax law rules, shareholders will receive notification of their portion of the fund's taxable ordinary dividends (if any), capital gains distributions (if any) and tax-exempt dividends paid for the 2012 calendar year on Form 1099-DIV, which will be mailed in early 2013.

The Fund

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### PROXY RESULTS (Unaudited)

Common Shareholders and holders of Auction Preferred Stock ("APS") voted together as a single class (except as noted below) on the following proposal presented at the annual shareholders' meeting held on June 8, 2012.

|   | Shares     |                    |
|---|------------|--------------------|
|   | For        | Authority Withheld |
| To elect four Class I Directors: <sup>†</sup> |            |                    |
| Joseph S. DiMartino                           | 37,758,621 | 3,871              |
| William Hodding Carter III                    | 37,522,356 | 3,871              |
| Joni Evans                                    | 37,630,329 | 3,871              |
| Richard C. Leone                              | 37,687,633 | 3,871              |

<sup>†</sup> The terms of these Class I Directors expire in 2015.

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### INFORMATION ABOUT THE RENEWAL OF THE FUND'S INVESTMENT ADVISORY AGREEMENT (Unaudited)

At a meeting of the fund's Board of Directors held on November 5-6, 2012, the Board considered the renewal of the fund's Management Agreement pursuant to which Dreyfus provides the fund with investment advisory and administrative services (the "Agreement"). The Board members, none of whom are "interested persons" (as defined in the Investment Company Act of 1940, as amended) of the fund, were assisted in their review by independent legal counsel and met with counsel in executive session separate from Dreyfus representatives. In considering the renewal of the Agreement, the Board considered all factors that it believed to be relevant, including those discussed below. The Board did not

identify any one factor as dispositive, and each Board member may have attributed different weights to the factors considered.

Analysis of Nature, Extent, and Quality of Services Provided to the Fund. The Board considered information previously provided to them in presentations from Dreyfus representatives regarding the nature, extent, and quality of the services provided to funds in the Dreyfus fund complex, and Dreyfus representatives confirmed that there had been no material changes in this information. Dreyfus provided the number of open accounts in the fund, the fund's asset size and the allocation of fund assets among distribution channels. Dreyfus also had previously provided information regarding the diverse intermediary relationships and distribution channels of funds in the Dreyfus fund complex (such as retail direct or intermediary, in which intermediaries typically are paid by the fund and/or Dreyfus) and Dreyfus' corresponding need for broad, deep, and diverse resources to be able to provide ongoing shareholder services to each intermediary or distribution channel, as applicable to the fund.

The Board also considered research support available to, and portfolio management capabilities of, the fund's portfolio management personnel and that Dreyfus also provides oversight of day-to-day fund operations, including fund accounting and administration and assistance in meeting legal and regulatory requirements. The Board also considered Dreyfus' extensive administrative, accounting, and compliance infrastructures.

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INFORMATION ABOUT THE RENEWAL OF THE FUND'S  
INVESTMENT ADVISORY AGREEMENT (Unaudited) *(continued)*

Comparative Analysis of the Fund's Performance and Management Fee and Expense Ratio. The Board reviewed reports prepared by Lipper, Inc. ("Lipper"), an independent provider of investment company data, which included information comparing (1) the fund's performance with the performance of a group of comparable funds (the "Performance Group") and with a broader group of funds (the "Performance Universe"), all for various periods ended September 30, 2012, and (2) the fund's actual and contractual management fees and total expenses with those of a group of comparable funds (the "Expense Group") and with a broader group of funds (the "Expense Universe"), the information for which was derived in part from fund financial statements available to Lipper as of the date of its analysis. Dreyfus previously had furnished the Board with a description of the methodology Lipper used to select the Performance Group and Performance Universe and the Expense Group and Expense Universe.

Dreyfus representatives stated that the usefulness of performance comparisons may be affected by a number of factors, including different investment limitations that may be applicable to the fund and comparison funds. The Board discussed the results of the comparisons and noted that the fund's total return performance on a net asset value basis variously was at or above the Performance Group median and the Performance Universe median for each reported time period (except for one period within each group in which it was lower). The Board also noted that the fund's total return performance on a market price basis variously was at, above, or below the Performance Group median and the Performance Universe median for the various reported time periods.

The Board also noted that the fund's yield performance, on a net asset value basis, was variously above or below the Performance Group median, and above the Performance Universe median, for the reported time periods, and, on a market price basis, variously was at, above, or below the Performance Group median and Performance Universe median over the ten one-year periods reported. Dreyfus also provided a comparison of the fund's calendar year total returns to the returns of the fund's Lipper category average, noting that on a net asset value basis the fund's return was higher in six of the ten calendar years (lower in four of the years).

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The Board received a presentation from the fund's portfolio managers, who described the fundamental and technical conditions at work in the municipal bond market, the level of volatility in the market, and the managers' ongoing focus on mitigating downside risk in the fund's portfolio. The portfolio managers also discussed the strategy implemented for the fund in 2009, quantitative risk management tools applied to overseeing the fund, the fund's current structure to defend against volatility and to otherwise defensively position the fund's credit posture. The portfolio managers also explained the fund's performance relative to its duration and credit structure and the degree to which it impacts maximizing yield performance. The Board also noted the generally compressed spread among the returns of the Performance Group funds.

The Board also reviewed the range of actual and contractual management fees and total expenses of the Expense Group and Expense Universe funds and discussed the results of the comparisons. The Board noted that the fund's contractual management fee was above the Expense Group median, the fund's actual management fee was above the Expense Group median and the Expense Universe median, and the fund's actual total expenses were above the Expense Group median and below the Expense Universe median. A Dreyfus representative noted that the undertaking by Dreyfus to waive receipt of .10% of the fund's investment advisory fee would be extended through May 31, 2013.

Dreyfus representatives reviewed with the Board the management or investment advisory fees (1) paid by funds advised or administered by Dreyfus that are in the same Lipper category as the fund and (2) paid to Dreyfus or the Dreyfus-affiliated primary employer of the fund's primary portfolio manager(s) for advising any separate accounts and/or other types of client portfolios that are considered to have similar investment strategies and policies as the fund (the "Similar Clients"), and explained the nature of the Similar Clients. They discussed differences in fees paid and the relationship of the fees paid in light of any differences in the services provided and other relevant factors. The Board considered the relevance of the fee information provided for the Similar Clients to evaluate the appropriateness and reasonableness of the fund's management fee.

The Fund

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INFORMATION ABOUT THE RENEWAL OF THE FUND'S

INVESTMENT ADVISORY AGREEMENT (Unaudited) *(continued)*

Analysis of Profitability and Economies of Scale. Dreyfus representatives reviewed the expenses allocated and profit received by Dreyfus and the resulting profitability percentage for managing the fund and the aggregate profitability percentage to Dreyfus of managing the funds in the Dreyfus fund complex, and the method used to determine the expenses and profit. The Board concluded that the profitability results were not unreasonable, given the services rendered and service levels provided by Dreyfus. The Board also had been provided with information prepared by an independent consulting firm regarding Dreyfus' approach to allocating costs to, and determining the profitability of, individual funds and the entire Dreyfus fund complex. The consulting firm also had analyzed where any economies of scale might emerge in connection with the management of a fund.

The Board's counsel stated that the Board should consider the profitability analysis (1) as part of the evaluation of whether the fees under the Agreement bear a reasonable relationship to the mix of services provided by Dreyfus, including the nature, extent and quality of such services, and (2) in light of the relevant circumstances for the fund and the extent to which economies of scale would be realized if the fund grows and whether fee levels reflect these economies of scale for the benefit of fund shareholders. Dreyfus representatives also noted that, as a result of shared and allocated costs among funds in the Dreyfus fund complex, the extent of economies of scale could depend substantially on the level of assets in the complex as a whole, so that increases and decreases in complex-wide assets can affect potential economies of scale in a manner that is disproportionate to, or even in the opposite direction from, changes in the fund's asset level. The Board also considered potential benefits to Dreyfus from acting as investment adviser and noted that there were no soft dollar arrangements in effect for trading the fund's investments.

At the conclusion of these discussions, the Board agreed that it had been furnished with sufficient information to make an informed business decision with respect to the renewal of the Agreement. Based on the discussions and considerations as described above, the Board concluded and determined as follows.

- The Board concluded that the nature, extent and quality of the services provided by Dreyfus are adequate and appropriate.

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- The Board was satisfied with the fund's performance, in light of the considerations described above.
  - The Board concluded that the fee paid to Dreyfus was reasonable in light of the considerations described above.
  - The Board determined that the economies of scale which may accrue to Dreyfus and its affiliates in connection with the management of the fund had been adequately considered by Dreyfus in connection with the fee rate charged to the fund pursuant to the Agreement and that, to the extent in the future it were determined that material economies of scale had not been shared with the fund, the Board would seek to have those economies of scale shared with the fund.

In evaluating the Agreement, the Board considered these conclusions and determinations and also relied on its previous knowledge, gained through meetings and other interactions with Dreyfus and its affiliates, of the fund and the services provided to the fund by Dreyfus. The Board also relied on information received on a routine and regular basis throughout the year relating to the operations of the fund and the investment management and other services provided under the Agreement, including information on the investment performance of the fund in comparison to similar mutual funds and benchmark performance indices; general market outlook as applicable to the fund; and compliance reports. In

addition, it should be noted that the Board's consideration of the contractual fee arrangements for this fund had the benefit of a number of years of reviews of prior or similar agreements during which lengthy discussions took place between the Board and Dreyfus representatives. Certain aspects of the arrangements may receive greater scrutiny in some years than in others, and the Board's conclusions may be based, in part, on their consideration of the same or similar arrangements in prior years. The Board determined that renewal of the Agreement for the ensuing year was in the best interests of the fund and its shareholders.

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## BOARD MEMBERS INFORMATION (Unaudited)

### **Joseph S. DiMartino (69)**

#### **Chairman of the Board (1995)**

Current term expires in 2015

#### *Principal Occupation During Past 5Years:*

- Corporate Director and Trustee

#### *Other Public Company Board Memberships During Past 5Years:*

- CBIZ (formerly, Century Business Services, Inc.), a provider of outsourcing functions for small and medium size companies, Director (1997-present)
- Sunair Services Corporation, a provider of certain outdoor-related services to homes and businesses, Director (2005-2009)
- The Newark Group, a provider of a national market of paper recovery facilities, paperboard mills and paperboard converting plants, Director (2000-2010)

*No. of Portfolios for which Board Member Serves:* 157

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### **William Hodding Carter III (77)**

#### **Board Member (1988)**

Current term expires in 2015

#### *Principal Occupation During Past 5Years:*

- Professor of Leadership & Public Policy, University of North Carolina, Chapel Hill (2006-present)

*No. of Portfolios for which Board Member Serves:* 27

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### **Gordon J. Davis (71)**

#### **Board Member (2006)**

Current term expires in 2013

#### *Principal Occupation During Past 5Years:*

- Partner in the law firm of Venable, LLP (2012-present)
- Partner in the law firm of Dewey & LeBoeuf, LLP (1994-2012)

#### *Other Public Company Board Memberships During Past 5Years:*

- Consolidated Edison, Inc., a utility company, Director (1997-present)
- The Phoenix Companies, Inc., a life insurance company, Director (2000-present)

*No. of Portfolios for which Board Member Serves:* 50

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**Joni Evans (70)**

**Board Member (2006)**

Current term expires in 2015

*Principal Occupation During Past 5Years:*

- Chief Executive Officer, www.wowOwow.com an online community dedicated to women's conversations and publications (2007-present)
- Principal, Joni Evans Ltd. (publishing) (2006-present)

*No. of Portfolios for which Board Member Serves: 27*

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**Ehud Houminer (72)**

**Board Member (1994)**

Current term expires in 2013

*Principal Occupation During Past 5Years:*

- Executive-in-Residence at the Columbia Business School, Columbia University (1992-present)

*Other Public Company Board Memberships During Past 5Years:*

- Avnet Inc., an electronics distributor, Director (1993-2012)

*No. of Portfolios for which Board Member Serves: 73*

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**Richard C. Leone (72)**

**Board Member (1987)**

Current term expires in 2015

*Principal Occupation During Past 5Years:*

- Senior Fellow and former President of The Century Foundation (formerly, The Twentieth Century Fund, Inc.), a tax exempt research foundation engaged in the study of economic, foreign policy and domestic issues

*Other Public Company Board Memberships During Past 5Years:*

- Partnership for a Secure America, Director

*No. of Portfolios for which Board Member Serves: 27*

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**Hans C. Mautner (75)**

**Board Member (1987)**

Current term expires in 2014

*Principal Occupation During Past 5Years:*

- President—International Division and an Advisory Director of Simon Property Group, a real estate investment company (1998-2010)
- Chairman and Chief Executive Officer of Simon Global Limited (1999-2010)

*No. of Portfolios for which Board Member Serves: 27*

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**Robin A. Melvin (49)**

**Board Member (1995)**

Current term expires in 2013

*Principal Occupation During Past 5Years:*

- Director, Boisi Family Foundation, a private family foundation that supports youth-serving organizations that promote the self sufficiency of youth from disadvantaged circumstances (1995-2012)

*No. of Portfolios for which Board Member Serves:* 100

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BOARD MEMBERS INFORMATION (Unaudited) *(continued)*

**Burton N. Wallack (62)**

**Board Member (2006)**

Current term expires in 2014

*Principal Occupation During Past 5Years:*

- President and Co-owner of Wallack Management Company, a real estate management company