I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act") against The Dreyfus Corporation ("Dreyfus" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, Respondent consents to the entry of this Order Instituting Public Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 ("Order"), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds that:
RESPONDENT

1. Dreyfus, a New York corporation, headquartered in New York, New York, has been registered as an investment adviser with the Commission since December 10, 1971 and presently operates 200 mutual funds with combined net assets of approximately $167 billion. Dreyfus provided investment advisory services to the Dreyfus Premier Enterprise Fund (“Enterprise Fund”) and the Dreyfus Premier NexTech Fund (“NexTech Fund”), each a series of the Dreyfus Premier Opportunity Funds (“Opportunity Funds”), a registered investment company. The NexTech Fund was merged into the Dreyfus Premier Technology Growth Fund, a series of the Dreyfus Growth and Value Funds in December 2003.

SUMMARY

2. In April 2000, Dreyfus entered into an investment advisory contract with the Opportunity Funds on behalf of the Enterprise Fund and NexTech Fund that provided for compensation to Dreyfus on the basis of a share of capital gains upon or capital appreciation of the assets of the Enterprise Fund and NexTech Fund. From July 2000 through June 2004 (the “relevant period”), Dreyfus collected compensation based on the Enterprise Fund and NexTech Fund’s daily net asset value in violation of Section 205 of the Advisers Act, as discussed below. Dreyfus charged the Enterprise Fund and NexTech Fund approximately $2.99 million more than it would have if it had complied with Section 205 of the Advisers Act.

Performance-Based Compensation under Section 205 of the Advisers Act

3. Section 205 of the Advisers Act generally prohibits investment advisers, unless exempt from registration under Section 203(b) of the Advisers Act, from entering into advisory contracts that provide for compensation based on a share of capital gains upon, or capital appreciation of, the assets of the Enterprise Fund and NexTech Fund. From July 2000 through June 2004 (the “relevant period”), Dreyfus collected compensation based on the Enterprise Fund and NexTech Fund’s daily net asset value in violation of Section 205 of the Advisers Act, as discussed below. Dreyfus charged the Enterprise Fund and NexTech Fund approximately $2.99 million more than it would have if it had complied with Section 205 of the Advisers Act.

4. Under Section 205(b)(2) of the Advisers Act, an investment adviser may enter into an advisory contract with a registered investment company that provides for performance-based compensation that: (i) increases and decreases proportionately with the investment performance of the company or fund over a specified period in relation to the investment record of an appropriate index of securities prices; and (ii) is based on the asset value of the company or fund, “averaged over a specified period.”

5. Rule 205-2(b) under the Advisers Act defines the “specified period” over which the asset value of the company or fund under management is averaged as the “period over which the investment performance of the company or fund and the investment record of an appropriate index of securities prices . . . are computed.”

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1 Advisers Act Rule 205-2(b); see Adoption of Rule 205-2 under the Investment Advisers Act of 1940, As Amended, Definition of “Specified Period” Over Which Asset Value of the Company or Fund Under Management is Averaged, Advisers Act Release No. 347 (Nov. 10, 1972) (stating that the performance-related portion of the fee must be assessed against the assets averaged over the same period over which performance was computed).
month period, then the adviser’s performance-based compensation must be assessed against the asset value of the fund averaged over the same 36-month period.

6. Rule 205-2(c) provides a conditioned exemption from Rule 205-2(b). Under this exemption, an advisory contract providing for performance-based compensation may use a “fulcrum fee,”2 for which the “specified period” over which the asset value of the company or fund under management is averaged may differ from the period over which the asset value is averaged for computing the performance-related portion of the fee, only if:

(a) the performance-related portion of the fee is computed over a rolling period3 and the total fee is payable at the end of each subperiod of the rolling period; and

(b) the fulcrum fee is computed based on the asset value averaged over the most recent subperiod or subperiods of the rolling period.4

For the purposes of Rule 205-2(c), the rolling period must be the same as the period over which performance is measured. Thus, for example, under the exemption provided by Rule 205-2(c), an advisory contract could provide for performance-based compensation that uses a fulcrum fee (calculated by applying a fulcrum-fee rate to the asset value averaged over the most recent subperiod or subperiods of a 36-month rolling period (e.g., the most recent month or three months (a quarter)), as adjusted by the performance-related portion of the fee (calculated by applying a performance-adjustment rate to the asset value of the fund averaged over the entire 36-month rolling period).

7. These provisions are designed to link an adviser’s performance-based compensation to the fund’s investment performance and thereby prevent performance-based compensation from being influenced unduly by the amount of sales or redemptions in the fund over a shorter period.5

**FACTS**

**Dreyfus’s Method for Computing Its Total Fee**

8. During the relevant period, Dreyfus charged the Enterprise Fund and NexTech Fund performance-based compensation. Dreyfus calculated its total fee for each fund by applying the total-fee rate (comprised of a fulcrum-fee rate as adjusted by a performance-adjustment rate)

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2 Rule 205-2(a)(1) defines fulcrum fee to be the “fee which is paid or earned when the investment company’s performance is equivalent to that of the index or other measure of performance.”

3 Rule 205-2(a)(2) defines rolling period to be “a period consisting of a specified number of subperiods of definite length in which the most recent subperiod is substituted for the earliest subperiod as time passes.” Thus, an advisory contract providing for a 36-month rolling period would be based on a rolling period consisting of 36 one-month subperiods.

4 Rule 205-2(c).

1. The Dreyfus advisory contract stated that the fulcrum-fee rate for the Enterprise Fund was 1.25% of the fund’s “average daily net assets.” After adjusting the fulcrum-fee rate by the performance-adjustment rate (determined by reference to the fund’s performance against the Russell 2000 Growth Index) the total-fee rate could range from as low as .45% to as high as 2.05% of the fund’s “average daily net assets.” The advisory contract provided that the fund’s performance would be measured against the performance of the index over a 36-month rolling period. It did not specify the period over which the fund’s assets were to be averaged for purposes of calculating the total fee. In practice, Dreyfus computed the fund’s total fee by applying the total-fee rate against the fund’s daily net asset value. During the relevant period, the fund’s performance always exceeded the performance of the index, causing the total-fee rate to equal the highest rate possible in all periods. The fund’s asset value generally increased so that the daily net asset value to which the total-fee rate was applied was generally higher than the value of the fund’s assets averaged over the 36-month rolling period. Given that Dreyfus applied the total-fee rate to the fund’s daily net asset value, Dreyfus received performance-based compensation significantly higher than it would have received if it had calculated the fund’s total fee in accordance with Section 205 and Rule 205-2 of the Advisers Act. Consequently, Dreyfus overcharged the Enterprise Fund by $938,344 during the relevant period.

2. The Dreyfus advisory contract stated that the fulcrum-fee rate for the NexTech Fund was 1.5% of the fund’s “average daily net assets.” After adjusting the fulcrum-fee rate by the performance-adjustment rate (determined by reference to the fund’s performance against the NASDAQ Composite Index) the total-fee rate could range from as low as .5% to as high as 2.5% of the fund’s “average daily net assets.” The advisory contract provided that the fund’s performance would be measured against the performance of the index over a 36-month rolling period. It did not specify the period over which the fund’s assets were to be averaged for purposes of calculating the total fee. In practice, Dreyfus computed the fund’s total fee by applying the total-fee rate against the fund’s daily net asset value. The fund’s performance generally lagged the performance of the index, causing the total-fee rate to equal the lowest rate possible in all periods. Over the relevant period, the fund’s asset value generally decreased so that its daily net asset value to which the total-fee rate was applied was generally lower than the value of its assets averaged over the 36-month rolling period. Given that Dreyfus applied the total-fee rate to the fund’s daily net asset value, Dreyfus received performance-based compensation significantly higher than it would have received if it had calculated the fund’s total fee in accordance with Section 205 and Rule 205-2 of the Advisers Act. Consequently, Dreyfus overcharged the NexTech Fund by $2,057,851 during the relevant period.

3. Upon notification by the Commission staff that Dreyfus was charging the Enterprise Fund and the NexTech Fund a total fee based on a method that did not comply with Section 205 of the Advisers Act, Dreyfus’ management discontinued the method and subsequently reimbursed the funds plus interest of $273,830, for a total payment of $3,270,025. The Board of Directors of each fund approved the repaid amount.
Violations

12. As a result of the conduct described above, Respondent willfully\(^6\) violated Section 205(a) of the Advisers Act, which prohibits an investment adviser from entering into or performing an advisory contract with a registered investment company that provides for performance-based compensation unless, pursuant to Section 205(b) of the Advisers Act, the contract provides for performance-based compensation based on the asset value of the fund averaged over a specified period and increasing and decreasing proportionately with the investment performance of the fund over a specified period in relation to the investment record of an appropriate index of securities prices.

Respondent’s Remedial Efforts

13. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in the Respondent’s Offer of Settlement. Accordingly, pursuant to Sections 203(e) and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondent is censured.

B. Respondent shall cease and desist from committing or causing any violations and any future violations of Section 205(a) of the Advisers Act.

By the Commission.

Nancy M. Morris
Secretary

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\(^6\) “Willfully” as used in this Order means intentionally committing the act which constitutes the violation, see Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000); Tager v. SEC, 344 F.2d 5, 8 (2d Cir. 1965). There is no requirement that the actor also be aware that he is violating one of the Rules or Acts.