

Strategic Value Dividend Managed Account Commentary

Market Overview

The equity market was volatile in June, as traders vacillated between generally improving economic data and the Federal Reserve sending somewhat mixed messages about when it will start to take some of the punch out of the punch bowl. The latter debate, initially stirred by Chairman Ben Bernanke in his May 22 congressional testimony and again by his comments after this month's two-day policymakers' meeting—in which he said tapering could begin as soon as September—caused longer-term Treasury rates to spike and risk assets to sell off.

Various Fed governors acted to contain the damage in subsequent speeches, arguing that tapering is not the same as tightening and that the timing of any paring of the Fed's \$85 billion in monthly purchases is still very much dependent on the data (i.e., the Fed's not going to act if the economy appears to be weakening instead of strengthening). Still, the idea that the Fed will begin to ease off the throttle as early as fall was enough to curb the market's enthusiasm.

As far as the fundamentals go, the economy appeared to be strengthening modestly after a very sluggish first quarter, in which GDP growth came in at a downwardly revised 1.8%. Reports on home sales, housing prices, consumer confidence, consumer sentiment, factory orders, manufacturing activity, job growth and consumer spending surprised to the upside—a more optimistic view also acknowledged by the Fed and cited as a rationale for beginning to taper. The severity of China's slowdown loomed as a worry, as did a pick-up in mortgage rates, though rates remained historically low and buying activity robust.

Strategic Value Dividend

Performance and Strategy

In spite of the recent commotion in the markets precipitated by the Federal Reserve and their future plans, the Federated Strategic Value Dividend portfolio has remained focused, as always, on providing investors with a high dividend yield supplemented with dividend growth. At the end of June, the portfolio's gross dividend yield measured 4.6%, higher than that of the broad market S&P 500 Index 2.2% and the Dow Jones Select Dividend Index 3.7%, which aims to reflect the domestic dividend-paying universe. During the second quarter, the portfolio realized 10 dividend increases. The most notable of these increases came from Chevron Corp. and Unilever PLC as they raised their dividends by 11.1% and 10.7%, respectively. That brings the year-to-date total to 17 increases for the portfolio's 37 holdings as of the halfway point of the year. The portfolio did experience one dividend cut during the year, as CenturyLink, Inc. opted to introduce a new share repurchase program at the expense of their dividend.

During the second quarter, the portfolio produced a gross total return of 1.2%. The S&P 500 Index returned 2.9% during the same time frame, and the Dow Jones Select Dividend Index returned 1.9%. For most of the quarter, investors favored low yielding, high beta stocks, which are not conducive to a dividend-oriented investment strategy. In fact, when looking at the broad U.S. market, high-beta stocks outperformed low-beta stocks by 4.4% and low-yielding stocks exceeded high-yielding stocks by 3.7%. This sentiment reversed during June as investors migrated toward traditional defensive sectors such as Telecom Services, Utilities, and Consumer Staples. These sectors tend to be characterized by low beta, high yield, and high-quality stocks, which tend to align more with a dividend-focused approach. For the overall quarter, the sectors that outperformed in the broad market were Financials, 7.3%, and Consumer Discretionary, 6.8%, which afford little dividend opportunity. The worst-performing sectors were Utilities, -2.7%, and Materials, -1.8%. Within the portfolio, highest total returns were found in Consumer Staples, 4.2%, and Health Care, 2.8%, where top performers included Reynolds American, Inc., 10.2%, Lorillard, Inc., 9.7%, and Bristol-Myers Squibb Co., 9.4%. Utilities and REITS were the worst performers in the portfolio, returning -3.1% and -2.9%, respectively. Regardless of the market's volatility and unpredictability, the portfolio seeks to provide a high income stream, dependable dividend growth, and lower downside risk in any market environment.

The second quarter was a turbulent period for the markets, reminding investors of the merits of investing in a portfolio rooted in a high current income that ultimately translates into lower downside risk. With a 5-year beta of just 0.6 versus the S&P 500, the portfolio overlooks the short-term noise in the market and instead focuses on the long-term drivers of total return by investing in mature large-cap businesses with the ability and willingness to pay and raise their dividends over time. This dividend-focused investment style not only presents investors with the opportunity for income but also offers a potential hedge against inflation. Historically, dividend yield and dividend growth have been the primary drivers of total return, and consistent dividend-paying and increasing stocks have exhibited considerably less volatility than the broad market. As such, the Federated Strategic Value Dividend portfolio provides a compelling investment opportunity for any investor looking for a portfolio that offers lower downside risk with less volatility than the broad market. Additionally, it may provide an option for those looking for an income stream to help pay their monthly bills, or those seeking a strategy with the potential to outperform the broad market in the long term.

Data as of 6/30/13. Information is supplemental to the attached GIPS presentation.

Issues discussed within this communication represent the investment manager's explanation of factors that were considered when executing transactions or holding specific securities on the prior date indicated. Because this is a managed portfolio, the investment mix will change and the holdings are not indicative of future portfolio composition. Marketplace conditions fluctuate suddenly and frequently, and investment manager's opinions may change. These comments are not intended to be and do not constitute recommendations that others buy, sell or hold any of the securities discussed. Opinions relate to the representative portfolio as of 6/30/13 and are subject to change.

Past performance is no guarantee of future results.

Schedule of Rates of Returns and Statistics

Composite **Strategic Value Dividend Managed Account Composite**
 Index **Changed 1/07 to Dow Jones Select Dividend from Russell Midcap® Value Index**
 Periods Ending **3/31/2013**

Returns (%)			
	Gross Composite Return	Index	Net Composite Return (Assuming Maximum Fee)
Q1 13	9.60	11.78	8.80
YTD	9.60	11.78	8.80
1 Year	16.58	17.93	13.17
3 Years (Annlzd)	15.77	15.87	12.38
5 Years (Annlzd)	6.37	6.70	3.24
7 Years (Annlzd)	5.51	4.26	2.40
10 Years (Annlzd)	10.34	11.20	7.09
Oct 01 - Mar 13	9.30	9.39	6.09

	Gross Historical Returns (%)					Net Historical Returns (%)					Index Historical Returns (%)				
	Q1	Q2	Q3	Q4	Annual/ YTD	Q1	Q2	Q3	Q4	Annual/ YTD	Q1	Q2	Q3	Q4	Annual/ YTD
2003	-5.21	16.35	5.33	10.95	28.90	-5.93	15.52	4.55	10.15	25.16	-4.06	17.89	5.94	15.22	38.07
2004	6.18	-2.83	3.85	9.67	17.52	5.40	-3.57	3.08	8.88	14.08	5.35	1.73	1.74	13.46	23.71
2005	-0.21	5.23	2.97	-1.12	6.92	-0.96	4.46	2.21	-1.86	3.77	0.78	4.70	5.35	1.34	12.64
2006	7.52	1.88	9.20	9.49	30.97	6.74	1.12	8.41	8.69	27.18	7.62	-0.56	3.53	8.50	20.22
2007	1.32	0.32	-1.52	-4.65	-4.55	0.57	-0.43	-2.26	-5.38	-7.39	2.29	1.85	-2.98	-6.17	-5.16
2008	-8.08	-8.90	0.33	-13.46	-27.29	-8.78	-9.60	-0.42	-14.14	-29.50	-8.61	-14.00	11.27	-21.07	-30.97
2009	-16.36	10.22	10.49	8.49	10.50	-17.03	9.42	9.69	7.70	7.25	-23.09	13.71	18.24	7.46	11.13
2010	0.43	-6.67	14.51	5.42	13.15	-0.32	-7.38	13.69	4.65	9.84	5.94	-6.82	11.53	7.48	18.32
2011	4.86	3.88	-2.74	10.30	16.85	4.08	3.11	-3.48	9.50	13.44	5.68	2.56	-7.95	12.68	12.42
2012	1.09	4.96	3.21	-1.80	7.53	0.34	4.18	2.44	-2.54	4.37	5.06	1.41	3.64	0.38	10.84
2013	9.60	N/A	N/A	N/A	9.60	8.80	N/A	N/A	N/A	8.80	11.78	N/A	N/A	N/A	11.78

	Composite Assets (\$ mil)				# of Accts at Year End	Dispersion* Annual	% Carve Out at Year End	Firm Assets (\$ bil)				3-Yr Std Dev**	
	Q1	Q2	Q3	Q4				Q1	Q2	Q3	Q4	Composite	Index
2003	21.9	43.7	92.4	191.9	692	1.20	0.00	193.3	199.3	190.4	193.9	N/A	N/A
2004	307.1	395.5	492.5	612.3	2,298	0.60	0.00	190.4	180.8	174.2	177.0	12.44	14.47
2005	754.3	909.0	1,057.3	1,015.6	4,653	0.39	0.00	177.0	202.5	204.5	210.9	9.59	10.92
2006	1,266.3	1,350.6	1,620.9	1,889.8	7,326	0.42	0.00	215.1	208.0	213.1	227.2	8.28	8.65
2007	2,137.7	2,430.5	2,484.5	1,979.6	9,420	0.38	0.00	246.0	254.5	276.3	294.9	7.91	8.85
2008	1,910.4	1,655.3	1,517.3	1,221.5	7,774	0.67	0.00	331.0	326.6	337.9	402.8	12.51	15.48
2009	1,074.7	1,206.8	1,312.5	1,401.0	6,970	0.47	0.00	404.1	396.8	387.4	384.4	15.46	22.26
2010	1,398.8	1,261.7	1,335.2	1,470.9	5,818	0.31	0.00	345.3	334.1	336.4	354.3	17.18	23.70
2011	1,669.5	1,446.2	1,503.6	1,678.9	5,869	1.10	0.00	351.2	345.0	346.9	363.9	14.33	19.86
2012	2,041.0	2,313.5	1,851.2	1,817.0	6,300	0.47	0.00	358.0	350.1	355.8	371.3	10.48	11.50
2013	2,162.0	N/A	N/A	N/A	N/A	N/A	0.00	368.3	N/A	N/A	N/A	10.09	11.33

*Standard deviation is calculated using gross returns. Standard deviation is not applicable ("N/A") for any period if fewer than five accounts are in the composite for that period. (See footnote 5)

**Represents the 3-year annualized standard deviation for both the composite and index returns. The statistic is used to measure the volatility of composite returns. The composite was created in December, 2001. Federated Investors has managed portfolios in this investment style since July, 1997. Federated Investors claims compliance with the Global Investment Performance Standards ("GIPS®") and has prepared and presented this report in compliance with the GIPS® standards. Federated Investors has been independently verified for the period January, 1992, through December 31, 2012. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis, and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. Verification does not ensure the accuracy of any specific composite presentation. The benchmark was changed to the Dow Jones Select Dividend Index which proved to be more representative of the current strategy. Effective April, 2010, the composite name was changed from Strategy Value Managed Account Composite to provide additional clarification. This composite is comprised of all domestic portfolios investing in stocks that management believes will provide high yield, reasonable dividend growth and lower volatility in falling equity market environments, yet will provide potential participation in rising markets. Eligible portfolios are managed with wide latitude to choose the sectors and securities to fulfill the mandate. Within eligible portfolios, securities are selected based on dividend yields, dividend growth rates, valuation attractiveness, a fundamental assessment of their financial strength, and their performance during periods of market weakness. Separate accounts eligible for this composite generally have a minimum of \$100,000 at the time of opening and are a part of an asset-based pricing program. Wrap fee accounts make up 100% of this composite for all time periods. Performance results are presented both net and gross of total wrap fees and reflect the reinvestment of income. "Pure" gross returns are shown as supplemental and do not reflect the deduction of transaction costs. Net returns reflect the deduction of a maximum fee. A model fee equal to the highest wrap fee that a client could pay (3.00% annually as charged by the program sponsor, inclusive of up to a maximum investment advisory fee of 0.70%) is used. This total wrap fee includes all charges for trading costs, portfolio management, custody and other administrative fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. See Notes to the Schedule of Rates of Return and Statistics.

Notes to the Schedule of Rates of Returns and Statistics

- Federated Investors is a global, independent, multi-strategy investment management firm with offices in Pittsburgh, New York, Rochester, Boston, London, Dublin, Frankfurt, and Australia. For GIPS purposes, Federated Investors is defined to include the assets of registered investment companies, separate (or private) accounts, managed accounts (including wrap accounts) and commingled or collective trusts that are advised or sub-advised by the following subsidiaries: Federated Advisory Services Co.; Federated Equity Management Co. of PA; Federated Investment Counseling; Federated Investment Management Co.; Federated Global Investment Management Corp.; International Management Limited; Passport Research, Ltd.; MDT Advisers; Federated Securities Corp.; effective December, 2008, (the date of acquisition) the institutional assets of Federated Clover Investment Advisors, and effective September, 2009, (the date the assets were brought into compliance) the SMA/Wrap assets of Federated Clover Investment Advisors; and effective April, 2012 (the date of acquisition) Federated Prime Rate Capital Management, LLP. Effective with the January 1, 2011, change in GIPS policies regarding fair value, the assets of the Capital Preservation Fund (a Guaranteed Investment Contract vehicle) were included in the defined firm assets. Prior to that date they were excluded as they are not market value based investments.*
- Interest income is recognized on an accrual basis. All portfolio assets include dividends recognized on accrual basis.*
- All market values and performance information are valued in U.S. dollars unless euro is denoted in composite title.*
- With the exception of the Federated Clover Investment Advisors composites, annual composite dispersion is measured and presented using the asset weighted standard deviation of the returns of all of the portfolios included in the composite over the entire year. Quarterly dispersion is measured using all portfolios included in the composite for that quarter. With regard to Federated Clover Investment Advisors composites, annual dispersion is measured using the equal weighted standard deviation of the returns of all the portfolios included in the composite over the entire year.*
- Composite dispersion does not measure the risk of the product presented, it simply measures the return variance among portfolios managed in a similar fashion. This variance can be affected by variations in cash flow or specific client parameters among the portfolios comprising the composites, as well as by Federated's execution of strategy across accounts.*
- The composites may include the equity or fixed segments of balanced separate accounts, when appropriate. Client directed cash flows for balanced accounts are accounted for independently in the appropriate segment using the portfolio's cash position in place at the time of the cash flow.*
- See the composite description language on the prior pages for a discussion on appropriate fees applied to calculate composite performance. In addition, further fee information can be obtained from Federated's respective Forms ADV Part 2 Brochure Item 5.*
- Additional information regarding the policies for valuing portfolios, calculating performance, and preparing compliant presentations, as well as a complete list and description of the firm's composites is available upon request.*
- Past performance is not indicative of future results.*
- See disclosures on the Schedule of Rates of Return and Statistics Reports for additional information.*



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G44087-01 (7/13)

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