

Strategic Value Dividend Managed Account Commentary

Market Overview

Moves by the Federal Reserve (the Fed) and European Central Bank (ECB) helped stocks continue to rally in September despite underlying economic data that was generally weak. At its Sept. 12-13 meeting, the Federal Open Market Committee (FOMC) unveiled a third round of quantitative easing (QE3) that surprised in its magnitude. Unlike the past two rounds establishing specific dollar and time limits on Fed intervention, QE3 was left open-ended, with the FOMC committing the central bank to buy \$40 billion of agency mortgage-backed securities a month, on top of the current \$45 billion in monthly purchases of longer-term Treasury securities.

Notably, while saying the bond purchases would run through the end of the year, Fed policymakers made clear if the labor market doesn't improve significantly by then, they stand ready to make additional purchases and to employ other policy tools. The Fed also extended its 0% target funds rate policy to at least mid-2015 from the previous late-2014 date. Overseas, the ECB signaled the eurozone central bank's willingness and readiness to buy debts of troubled sovereigns to keep the euro from collapsing.

The central banks' actions were enough to keep stocks on an upswing. In effect, the Fed – and the ECB – may be attempting to eliminate worries about tail risks, at least until the Nov. 6 elections provide more policy certainty.

Strategic Value Dividend

Performance and Strategy

The Strategic Value Dividend portfolio, designed to provide investors with dividend income, dividend growth, and lower downside risk, finished the third quarter of 2012 with a gross dividend yield of 4.8%. As investors continue through a zero interest rate environment, this 4.8% yield stands well above the yield of the 10-Year U.S. Treasury Bond (1.6%), the broad-market S&P 500 Index (2.2%), and even the Dow Jones Select Dividend Index (4.0%) which attempts to represent the domestic dividend-paying universe. Dividend growth helped the portfolio sustain its high yield, as seven of the portfolio's holdings raised their dividends in the third quarter alone. The largest and most recent dividend increases came courtesy of Philip Morris International Inc. and McDonald's Corp. which raised their dividend payments to shareholders by 10.4% and 10.0% respectively. Year-to-date, the 37-stock portfolio has received 26 dividend increases among its holdings, as well as one special dividend that came from GlaxoSmithKline PLC in February. The portfolio has also experienced no dividend cuts so far in the year.

During the third quarter, the Strategic Value Dividend portfolio produced a gross total return of 3.2%. The broad-market S&P 500 Index returned 6.4% and the Dow Jones Select Dividend Index returned 3.6% in that same time period. The late-August preference for risky assets and the QE3-fueled market rally in September drove results for the quarter and as a consequence, low quality, high beta, low yielding securities were in favor. Amongst equities, low quality stocks outperformed high quality stocks by 1.9%, high beta stocks surpassed low beta stocks by 2.7%, and lowest yielding stocks beat highest yielding stocks by 7.1%. (Source: Bank of America Merrill Lynch U.S. Performance Monitor as of 9/30/12.) Although investor preferences favored characteristics that are not conducive to an income-oriented strategy, the Strategic Value Dividend portfolio still experienced upside participation as every sector contributed positively to returns. Energy (+6.4%), Health Care (+5.2%), and Telecom Services (+4.7%) were the best performing sectors for the portfolio. These sectors were led by Total SA, Eli Lilly & Co., and BCE, Inc. which experienced returns of 12.7%, 11.8%, and 8.0% respectively.

As one of its investment objectives, lower downside risk is a prominent feature of the portfolio, evidenced by its low 5-year beta of 0.58 versus the S&P 500. When market downswings occur, dividend stocks are generally less sensitive to broad market selloffs, since dividend-paying companies are typically large, well-established global firms with diverse revenue streams and geographies. Additionally, dividend stocks anchor a large portion of total return to their dividend distributions, and they are also commonly held by income investors who trade less frequently. As a result, these stocks do not tend to move in lock-step with the market, typically falling less in times of market distress and rising less during broad market rallies, as demonstrated by the recent QE3 rally.

As the fourth quarter of 2012 begins and the broad market focuses on issues such as the upcoming election, the persisting debt crisis in Europe, etc., the Strategic Value Dividend portfolio will continue to stay above the fray and remain rooted in its unwavering dedication to provide its investors with a high and rising dividend cash stream. By investing in companies that have both the ability and the inclination to pay and increase their dividends, the Strategic Value Dividend portfolio also seeks to position itself well to achieve superior long-term total returns for its investors, since history has shown dividend yield and dividend growth to be the primary drivers of historical total returns in equities. The portfolio is further complemented by the natural lower downside risk features of its high quality, high yielding holdings. All of these factors may make the Strategic Value Dividend portfolio a viable strategy for a wide array of investors, and demonstrate the benefits of investing in high quality, well-established companies that pay large and rising dividends to their investors.

Data as of 09/30/12. 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 9/30/12 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 **6/30/2012**

Returns (%)			
	Gross Composite Return	Index	Net Composite Return (Assuming Maximum Fee)
Q2 12	4.96	1.41	4.18
YTD	6.10	6.54	4.54
1 Year	13.82	10.50	10.49
3 Years (Annlzd)	18.92	21.66	15.45
5 Years (Annlzd)	1.14	-0.21	-1.85
10 Years (Annlzd)	7.77	7.67	4.60
Oct 01 - Jun 12	8.91	8.54	5.71

	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
2002	9.59	-0.89	-11.92	5.15	0.59	8.79	-1.64	-12.61	4.38	-2.39	7.90	-4.67	-17.95	7.06	-9.65
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	N/A	N/A	6.10	0.34	4.18	N/A	N/A	4.54	5.06	1.41	N/A	N/A	6.54

	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
2002	1.1	1.3	1.8	6.9	36	0.03	0.00	175.4	182.8	179.8	193.1	N/A	N/A
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	N/A	N/A	N/A	N/A	0.00	358.0	350.1	N/A	N/A	10.98	12.88

*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 March 31, 2012. The verification report is available upon request. 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 a fundamental assessment of their financial strength, dividend yields, dividend growth rates and valuation attractiveness. 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. Net returns reflect the deduction of the maximum annual wrap fee of 3.00%. Wrap fee accounts pay a fee based on a percentage of assets under management that generally covers investment management, trading, portfolio monitoring, consulting services, and in some cases, custodial services. Gross returns are shown as supplemental information and are stated gross of all fees and transaction costs.

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, and Frankfurt. 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. Federated Investors is in the process of bringing the assets of the Federated Prime Rate Capital Management, LLP into compliance. 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.*
- With regard to the composites not managed by the Federated Clover or MDT Advisers teams, effective October 1, 2009, net of fee performance for institutional composites is calculated monthly by reducing the gross composite return by the highest institutional management fee. For the period July 1, 1992 through September 30, 2009, net of fee performance was calculated monthly by reducing the gross composite return by the highest actual fee of any account in the composite for that month, regardless of investment vehicle. Prior to this, the maximum management fee charged for the period July 1, 1992 through September 30, 1992 was used to calculate net of fee performance back to inception of the composite. With regard to a composite which may reflect the performance of the Clover Capital portfolio management team, net of fee performance is calculated monthly using the actual net return for all portfolios in the composite. With regard to a composite which may reflect the performance of the MDT Advisers portfolio management team, net of fee performance is calculated monthly using the highest institutional management fee. 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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