

## International Strategic Value Dividend ADR Managed Account Commentary

### Market Overview

Equity markets pulled off their August low but were still down on the month, closing out their worst quarter in four years as investor fears over China, lower oil and a potential global slowdown outweighed generally better economic data at home. The Federal Reserve added to the uncertainty and volatility, choosing to put off liftoff at its September meeting, rattling the markets even though futures had put the odds of a move at well below even.

On the economic front, much of the news was good. The final read on second-quarter GDP revised growth up again to 3.9%, led by a big jump in consumer outlays. Sentiment and confidence data also surprised to the upside, suggesting Main Street wasn't all that wrapped up in the events that were shaking up Wall Street. The Philadelphia Fed's gauge of states showed growth accelerating in 41 states; state and local tax revenues also suggested broad improvement, with individual income taxes rising at their fastest pace in almost two years. Meanwhile, uncertainty loomed outside the U.S. as China's manufacturing sector contracted for its second straight month, heightening concern around how its major trade partners would cope with a protracted slowdown in demand for raw materials.

August nonfarm payroll growth disappointed somewhat but it's a quirky month that historically has experienced significant upward revisions. Jobless claims were still very low, and September's ADP payroll survey came in at a better-than-expected increase of 200,000 jobs. Elsewhere, auto sales remained very strong and housing's momentum continued, with new home sales hitting a 7-year high and permits keeping the construction pipeline filled going into fall. The only fly in the ointment was manufacturing, where a stronger dollar and energy cutbacks continued to weigh on exports and overall activity.

# International Strategic Value Dividend ADR

## Performance and Strategy

While global stock markets reacted intensely to speculation around the timing of “Fed liftoff,” a weaker Chinese economic outlook and broadening uncertainty surrounding global economic growth, the Federated International Strategic Value Dividend ADR SMA portfolio continued to focus on its objectives of providing a substantially higher-than-market yield and long-term dividend growth. In the third quarter of 2015, the portfolio continued to deliver on those objectives. The strategy finished Q3 with a weighted average stock dividend yield of 4.8%, which was well ahead of the 3.3% weighted average stock dividend yield for the international broad market, as represented by the MSCI EAFE Index, and just below the 5.2% yield provided by the MSCI EAFE High Dividend Yield Index. Consistent with the strategy’s dividend growth objective, five portfolio holdings announced dividend increases in Q3. U.K.-based holdings Diageo, Pearson and British American Tobacco all raised their distributions in the quarter, delivering hikes of 9.1%, 6.1% and 3.5%, respectively. Tobacco holding Philip Morris International also raised its dividend by 2.0% in the period. And Canadian bank holding CIBC increased its dividend for the fourth time in the trailing 12 months, providing a year-over-year dividend growth rate of 12.0%. Year to date, 24 portfolio holdings have announced dividend increases, along with one reduction. Additionally, one company within the portfolio, GlaxoSmithKline, declared a special dividend that will be payable in 2016. It is also worth noting that portfolio companies customarily declare and pay dividends in their local currencies. The fluctuation of exchange rates can either positively or negatively impact the year-over-year dividend growth that investors ultimately realize in U.S. dollars.

In Q3, the Federated International Strategic Value Dividend ADR SMA generated a gross total return of -7.5%. This compares to a return of -8.6% for the MSCI EAFE High Dividend Yield Index, a representation of the international dividend-paying universe, and -10.2% for the broad-based MSCI EAFE Index. With the portfolio’s investments in the dividend income-producing segment of the international market and its 5-year weighted average stock beta versus the MSCI EAFE Index of 0.74, the strategy’s short-term returns are not expected to move in accordance with the broad market.

While investor preferences and short-term market performance will vary from quarter to quarter, the Federated International Strategic Value Dividend strategy remains focused on the long-term drivers of total return: dividend yield and dividend growth. In order to pursue these income-based objectives, the portfolio invests in high-yielding, high-quality stocks, many of which are found within mature markets and sectors that typically exhibit low levels of cyclicality. While share price declines were widespread in Q3, the strategy avoided some of the period’s steepest selloffs, which were observed in cyclical sectors like Materials, Information Technology and Industrials. And consistent with the lower downside-risk features of the portfolio, several of its core income-producing sectors exhibited defensive characteristics in the period.

The Utilities sector was the strategy’s most resilient source of returns in Q3, contributing a positive weighted average total return of 3.3%. The portfolio’s top-performing Utility holding for the period was U.K.-based power transmitter National Grid, which delivered a total return of 7.8%. Meanwhile, the strategy’s weakest performance was observed in the Energy, Telecom and Financials sectors, which contributed weighted average total returns of -16.3%, -11.8% and -11.6%, respectively. Laggards from these sectors included Telefonica Brasil (-24.6%), BP (-22.3%) and Australia & New Zealand Banking Group (-21.4%).

Share performance in Q3 was characterized by a sharp drop across most major equity indexes throughout the world. Within the Federated International Strategic Value Dividend portfolio, Germany was the only country to deliver a positive absolute return for the month, with Munich Re, the strategy’s sole German holding, posting a 5.1% return. Consistent with the share price weakness noted throughout the Asia/Pacific region in Q3, Australia and Singapore were two of the portfolio’s biggest detractors, delivering weighted average total returns of -16.8% and -17.5%, respectively. The portfolio’s modest exposure to Brazil—about 4.0% at the end of Q3—also dragged on performance, with Brazilian holdings returning -20.3% in the period.

While short-term price trends may reflect varying preferences for quality and income, we remain focused on seeking to deliver a portfolio of companies that generate significantly above-average dividend yields, moderate dividend growth and strong balance sheets. As a result of our strategy, the portfolio is broadly invested across a range of sectors and industries, with an orientation toward high-dividend income opportunities in international markets. This diversification may lower the portfolio’s volatility. Currently, some of the strategy’s largest investments are in the Consumer Staples, non-eurozone Financials, Energy, Telecom and Health Care sectors. The strategy’s assets are invested in ADR shares of foreign securities—primarily in the developed markets of the U.K., Canada, Australia and Western Europe. A smaller portion of the portfolio’s holdings may consist of securities from emerging markets like Brazil or Mexico.

*Beta is calculated using the weighted average of the betas of the portfolio’s underlying stocks as of 9/30/15. Each stock’s beta is derived from 60 months of data using country of risk to determine the appropriate market return.*

*Data as of 9/30/15. Information is supplemental to the attached GIPS presentation.*

*For a comparison of gross to net returns, see chart on page 3. “Pure” gross-of-fees returns do not reflect the deduction of any expenses, including trading costs. “Pure” gross-of-fees returns are supplemental to net returns. This information is supplemental to the attached GIPS presentation which should be referred to for the current performance, including the net figures.*

*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 9/30/15 and are subject to change.*

**Past performance is no guarantee of future results.**

# Schedule of Rates of Return and Statistics

Composite **International Strategic Value Dividend ADR Managed Account Composite**  
 Index **MSCI EAFE High Dividend Yield (net)**  
 Periods Ending **6/30/2015**

Returns (%)			
	Gross Composite Return	Index	Net Composite Return (Assuming Maximum Fee)
<b>Q2 15</b>	0.20	-2.21	-0.55
<b>YTD</b>	-0.76	0.53	-2.24
<b>1 Year</b>	-10.63	-10.71	-13.30
<b>3 Years (Annlzd)</b>	8.51	10.45	5.32
<b>5 Years (Annlzd)</b>	10.81	10.66	7.55
<b>7 Years (Annlzd)</b>	3.35	2.55	0.29
<b>Jul 08 - Jun 15 (Annlzd)</b>	3.35	2.55	0.29

	Composite Gross Return	Composite Net Return	Benchmark Return	Composite* 3-Yr St Dev	Benchmark* 3-Yr St Dev	Number of Portfolios	Dispersion**	% of Carve-Outs	Composite Assets (\$mil)	Firm Assets (\$bil)
<b>2008</b>	-30.53	-31.64	-36.71	N/A	N/A	1	N/A	0.00%	0.9	402.8
<b>2009</b>	25.08	21.44	40.53	N/A	N/A	1	N/A	0.00%	14.1	384.4
<b>2010</b>	3.84	0.77	-0.32	N/A	N/A	1	N/A	0.00%	37.4	354.3
<b>2011</b>	4.90	1.80	-1.19	19.14	24.37	6	N/A	0.00%	0.8	363.9
<b>2012</b>	15.42	12.04	13.38	16.95	19.54	10	0.13	0.00%	2.0	371.3
<b>2013</b>	15.96	12.57	23.90	13.51	15.37	58	0.17	0.00%	11.9	366.8
<b>2014</b>	0.16	-2.80	-3.61	12.12	13.80	142	0.06	0.00%	35.4	349.3

\*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.

\*\*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)

This composite is comprised of all fully invested international equity portfolios invested in a manner consistent with Federated's International Strategic Value ADR model portfolio. The International Strategic Value ADR model portfolio consists of all portfolios investing in foreign 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. Portfolios may invest in less developed or emerging markets which generally entail greater political, economic, market, tax, credit and other risks, and generally have greater price volatility than securities issued or traded in developed markets. Within eligible portfolios, securities are selected based on a fundamental assessment of their financial strength, dividend yields, dividend growth rates and performance during periods of market weakness. Portfolios in this composite implement the strategy using American Depositary Receipts (ADR) versus directly purchasing shares of companies on foreign exchanges. Investments in ADRs entail risks related to daily fluctuations in the value of currency, which may be more volatile in times of increased market risk. Effective January 2015, portfolios in this composite have the ability to utilize certain Federated Managed Account Portfolios (MAPs) in a strategic fashion. MAPs are zero fee mutual funds that have been specifically designed for use with the Federated managed accounts. Performance prior to April 2011 is representative of the institutional composite in the same strategy. The institutional composite invests in foreign stocks through the use of local shares, whereas the wrap accounts invest through ADRs. Effective January 2013, performance for this composite is calculated in U.S. dollars net of foreign withholding taxes on dividends, interest, and capital gains. 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. Accounts managed in this composite have a high degree of uniformity but will vary based on account opening dates, client contributions and withdrawals, and may contain client directed security restrictions. This composite was created in March 2011. Federated Investors has managed portfolios in this investment style since June 2008. Prior to April 2011, this composite consisted of the International Strategic Value Dividend Composite. For the period April 2011 through September 2011, wrap fee accounts made up 100% of this composite. Effective October 2011, non-fee paying portfolios comprise less than 5% of this composite, while the remainder of the composite is comprised of wrap fee paying portfolios. Performance shown for 2008 is for a partial period starting on July 1, 2008. 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 of January 1, 1992, through March 31, 2015. 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. 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 0.75%) 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 Return and Statistics

- 1. 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 Investors (UK), 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.*
- 2. Interest income and dividends are recognized on an accrual basis. Returns include the reinvestment of all income.*
- 3. All market values and performance information are valued in U.S. dollars unless currency is denoted in composite title.*
- 4. 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.*
- 5. 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.*
- 6. 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.*
- 7. See the composite description language on the prior page for a discussion on appropriate fees currently applied to calculate composite performance. With regard to the institutional composites not managed by the Federated Clover or MDT Advisers teams, 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. In addition, further fee information can be obtained from Federated's respective Forms ADV Part 2 Brochure Item 5.*
- 8. 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.*
- 9. Past performance is not indicative of future results.*
- 10. See disclosures on the Schedule of Rates of Return and Statistics Reports for additional information.*



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