

Strategic Value Dividend Managed Account Commentary

Market Overview

Early in the third quarter, stocks shook off the Brexit bombshell as global markets rallied, driven by better-than-expected earnings, improving economic data and an interest rate environment that remained supportive of equities relative to bonds in the near term. Market returns went nowhere in August amid the seasonal volatility that has been characteristic of late summer and early fall. Following July's gains, investors took pause mid-quarter amid growing uncertainties surrounding the Federal Reserve (Fed) and the outcome of the U.S. presidential and congressional elections in November.

Equity performance remained mixed in September as an agreement to cut OPEC production buoyed energy shares and news that the Fed would remain in a holding pattern helped fuel a rally off mid-September lows. Economic data also provided a source of encouragement late in the quarter as forces that had been aiding U.S. growth—housing, auto sales and service-sector activity—lost some momentum but remained relatively robust. Back-to-school sales disappointed, but consumer spending overall remained healthy, as did job and wage growth. Manufacturing continued to struggle, although there were signs of a potential pickup late in the month. Meanwhile, European financial stocks ended the quarter under a dark cloud, with the U.S. Department of Justice proposing a \$14 billion settlement with Deutsche Bank related to the sale of mortgage securities from the mid-2000s.

In sum, with 2016's all-important final quarter at the doorstep and third quarter data continuing to trickle in, hopes for a sharp second-half rebound have begun to fade. The Atlanta Fed's closely watched GDP Now forecast for growth in the July-September quarter ended September at 2.4%, well below the 3.5% estimate at the end of August. At the same time, no one is seriously talking recession, just more of the same: muddling along while awaiting the key event of the year: the presidential and congressional elections.

Strategic Value Dividend

Performance and Strategy

In spite of the recent turmoil in the market, the Strategic Value Dividend portfolio remains focused, as always, on its goal of seeking to provide a high and rising income stream. It ended the month with a gross weighted average yield of 4.0%. The portfolio's yield exceeded that of the broad market represented by the S&P 500 (2.1%), the 10-year U.S. Treasury Note (1.60%) and even the Dow Jones Select Dividend Index (3.6%), which aims to represent the domestic high-dividend-paying universe. The portfolio also realized seven dividend increases in the third quarter with the most notable increases from Reynolds American (9.5%), Altria (8.0%) and McDonalds (5.6%). This is Reynolds second increase in the calendar year, as it also raised its distribution in February for a cumulative increase of 27.8%. Reynolds recently announced that it would move its target dividend payout ratio to 80% of earnings, up from the current 75%, which led to the 9.5% increase at the end of July. For the trailing twelve months, 30 companies within the portfolio have increased their dividends accounting for 35 increases overall.

During the third quarter, the portfolio produced a gross total return of -3.1%. Over the same time frame, the S&P 500 Index and Dow Jones Select Dividend Index returned 3.9% and 1.4%, respectively. The flight to safety that was apparent in the first half of the year came to an end as an abrupt reversal in investor preferences took hold in the third quarter. A "risk on" environment dominated as investors favored low-yielding, high-beta, low-quality, small-cap equities. Stocks in the lowest-yielding quintile of the U.S. market outperformed stocks in the high-yielding quintile by 6.3%. Similarly, stocks in the highest-beta quintile led stocks in the lowest beta quintile by 14.5%. Similarly, stocks with a "C-D" quality rating outpaced stocks with an "A+" quality rating by 12.6%. Such stocks are not conducive to a dividend-oriented investment strategy and consequently, the worst performing sectors in the broad market were the defensive, dividend-rich Telecomm, Utilities and Staples sectors, which returned -5.9%, -5.6% and -2.6%, respectively. The top performer in the broad market was the cyclical Information Technology space, which posted a 12.9% return.

Regardless of current investor preferences, the Strategic Value Dividend portfolio remains focused on dividend-friendly, non-cyclical sectors such as Consumer Staples, Utilities and Telecom Services. The largest detractors to performance were these very sectors with total returns of -3.5%, -5.1% and -4.6%, respectively. Within Consumer Staples, Reynolds American and Altria posted returns of -11.8% and -7.4%, respectively, giving back modestly on strong gains realized over the last several years. There were no fundamental changes to the portfolio's investments in Utilities and Telecom Services; however, they came under near-term price pressure associated with strong performance in the first half of the year and ongoing speculation on when the Fed will raise rates again.

Positive performance in the portfolio was noted in the Health Care sector, which posted a return of 0.8%. Highest performance came from Merck, which delivered a 9.1% total return due to positive second quarter earnings results from strong sales of its diabetes drug, Januvia, and its new PD-1 oncology therapy. AstraZeneca returned 7.0% after reporting in-line second quarter earnings and on the expectation of positive future pipeline development. At the security level, other investments that advanced in the period included Procter & Gamble and Pepsico, both within Consumer Staples, providing total returns of 6.8% and 3.4%, respectively.

Notwithstanding current market conditions, the Strategic Value Dividend portfolio will remain committed to its goal of seeking to provide a high and rising income stream from high-quality business assets and will not alter its investment style based on near-term market preferences. The portfolio's investment strategy looks beyond short-term market noise and focuses instead on two long-term drivers of total return: dividend yield and dividend growth. In addition, consistent dividend-paying and dividend-increasing stocks have exhibited considerably less volatility than the broader market—as reflected in the portfolio's beta of 0.58. Since inception, the portfolio has participated materially in the broad market's positive performance, but perhaps more importantly, it has historically provided investors with some shelter from market downturns, posting a 58% downside capture ratio since inception. The portfolio's holdings not only provide the opportunity for a substantial level of rising income, but they also tend to offer lower downside risk since the portfolio's investments naturally tend to be mature, large-cap global companies that are committed to a generous dividend policy.

Data as of 9/30/16. 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 9/30/16 and are subject to change.

Past performance is no guarantee of future results.

Schedule of Rates of Return 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 **6/30/2016**

Returns (%)			
	Gross Composite Return	Index	Net Composite Return (Assuming Maximum Fee)
Q2 16	6.92	5.40	6.14
YTD	15.44	15.55	13.76
1 Year	20.54	17.87	17.03
3 Years (Annlzd)	13.92	14.12	10.59
5 Years (Annlzd)	13.60	14.23	10.27
7 Years (Annlzd)	15.82	17.92	12.43
10 Years (Annlzd)	7.89	7.38	4.72
Oct 01 - Jun 16 (Annlzd)	10.15	10.30	6.91

	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)
2006	30.97	27.18	20.22	8.28	8.65	7,326	0.42	0.00%	1,889.8	227.2
2007	-4.55	-7.39	-5.16	7.91	8.85	9,420	0.38	0.00%	1,979.6	294.9
2008	-27.29	-29.50	-30.97	12.51	15.48	7,774	0.67	0.00%	1,221.5	402.8
2009	10.50	7.25	11.13	15.46	22.26	6,970	0.47	0.00%	1,401.0	384.4
2010	13.15	9.84	18.32	17.18	23.70	5,818	0.31	0.00%	1,470.9	354.3
2011	16.85	13.44	12.42	14.33	19.86	5,869	1.10	0.00%	1,678.9	363.9
2012	7.53	4.37	10.84	10.48	11.50	6,300	0.47	0.00%	1,817.0	371.3
2013	21.59	18.05	29.06	8.53	9.36	7,420	0.42	0.00%	2,444.2	366.8
2014	12.34	9.05	15.36	8.92	9.04	6,412	0.23	0.00%	2,223.3	349.3
2015	4.00	0.93	-1.64	9.97	9.91	6,982	0.21	0.00%	2,303.9	343.4

*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 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, a fundamental assessment of their financial strength, and their performance during periods of market weakness. The benchmark was changed January 2007 to the Dow Jones Select Dividend Index which proved to be more representative of the current strategy. Effective July 2013, performance for this composite is calculated in U.S. dollars net of foreign withholding taxes on dividends, interest, and capital gains. Effective January 2016 accounts previously assigned to a platform-restricted composite may be eligible for inclusion in this composite. Accounts deemed by the portfolio manager to have a category restriction shall be excluded from this composite. A category is defined as a collection of investments with similar attributes such as industry classification, business sensitivity, social theme, or security features. 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. This composite was created in December 2001. Federated Investors has managed portfolios in this investment style since July 1997. Performance shown for 2001 is for a partial period starting on October 1, 2001. 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, 2016. 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 0.70%) 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 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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