

Strategic Value Dividend Managed Account Commentary

Market Overview

Concerns over energy, manufacturing and China helped snuff out a budding Santa Claus rally, with the three major domestic equity indexes closing down on the month and the big two—the S&P 500 and the Dow Jones—also down for the year. December's performance was representative of the entire year, as encouraging news on jobs, autos and consumers once again battled unsettling news on oil prices, manufacturing activity and a slowing China, leaving investors uncertain about the future.

For its part, the Federal Reserve wasn't uncertain. It finally initiated its first tightening cycle in more than nine years, lifting the target funds rate a quarter-point off the 0%-to-0.25% range/floor where it had sat since December 2008. In a sign it sees the economy strengthening in the new year, the Fed signaled four similar rate hikes for 2016, a move the market appears to be taking with a grain of salt. Worried a global economic slowdown and the commodity complex's collapse will make it difficult for the policymakers to reach their 2% inflation target, the futures market currently is pricing in lower expectations for 2016.

Strategic Value Dividend

Performance and Strategy

The Federated Strategic Value Dividend portfolio has remained focused on its goal of providing investors with a high dividend yield portfolio complemented by dividend growth. The portfolio finished the quarter with a 4.4% dividend yield, greater than both the Dow Jones Select Dividend Index (3.9%) and the S&P 500 Index (2.2%). The Dow Jones Select Dividend Index aims to represent the domestic dividend-paying universe while the S&P 500 Index is widely used to represent the broad market. In addition to its high yield, the 34-stock portfolio experienced 35 dividend increases during 2015, including 11 in the fourth quarter. Some of the more notable dividend raises during the quarter came from Dominion Resources (8.1%), American Electric Power (5.7%) and McDonalds (4.7%).

For the fourth quarter, the portfolio posted a gross total return of 5.2%. During the same time period, the Dow Jones Select Dividend Index produced a total return of 4.4% and the S&P 500 Index had a total return of 7.0%. The volatile market ride of 2015 continued in the fourth quarter as investor preferences reversed not once, but twice. In the third quarter investors had sought safer havens with defensive securities. October and November proved to be the opposite as investor appetite for risk surged in anticipation of a December rate hike. By December, it was evident that positive investor expectations succumbed to ongoing concerns regarding oil prices, weakness in China and tensions in the Middle East. Ultimately, these macro concerns dwarfed the market's anticipation of the long-awaited rate hike, which ended up being more or less a non-event for dividend-friendly portfolios.

Notwithstanding the heightened volatility in the quarter, the portfolio still posted strong performance with positive returns across all sectors, with the exception of Energy. Consumer Staples (8.4%) and Consumer Discretionary (20.8%) led the way. Within Staples, Kimberly Clark and Phillip Morris International outperformed, posting returns of 17.6% and 12.1%, respectively. The sole investment within Discretionary, McDonald's, returned 20.8% due to improved investor confidence, driven by the addition of new premium sandwiches and the implementation of all-day breakfast. Health Care (6.1%) also contributed positively to performance, driven by Johnson & Johnson and GlaxoSmithKline as the two companies announced positive Phase 3 results for a late-stage rheumatoid arthritis drug that they share.

In the quarter, negative performance was noted in the Energy sector, with portfolio holdings posting a return of -0.8%. The laggard in the portfolio, a 1.1% exposure to Kinder-Morgan, posted a return of -39.6%. The investment was ultimately sold due to concerns that a dramatic change in capital market funding prospects created material risk to the dividend. Subsequently, Kinder-Morgan did cut its distribution. Outside of Energy, negative performance was also noted in Telecom Service provider BCE (-4.7%) as news of mergers and acquisitions activity elsewhere in the Canadian market may result in an increase in competition.

Our dividend-focused investment style not only seeks to present investors with a cash flow stream today, but also strives to position the portfolio for the long-term modest capital appreciation through dividend growth. Historically, dividend yield and dividend growth have been the primary drivers of total return. In addition, consistent dividend-paying and dividend-increasing stocks have exhibited considerably less volatility than the broader market—as reflected in the portfolio's five-year beta of 0.56. We believe that our portfolio approach also can generate attractive capture ratios. Since inception, the portfolio has participated materially in the broad market's positive performance, but perhaps more importantly, it has historically shielded investors from market downturns, posting a 58% downside capture ratio since inception.

Data as of 12/31/15. 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 12/31/15 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 **9/30/2015**

Returns (%)			
	Gross Composite Return	Index	Net Composite Return (Assuming Maximum Fee)
Q3 15	-0.73	-2.26	-1.47
YTD	-1.13	-5.75	-3.33
1 Year	0.80	2.24	-2.18
3 Years (Annlzd)	9.87	12.10	6.64
5 Years (Annlzd)	12.34	13.45	9.04
7 Years (Annlzd)	9.07	8.88	5.86
10 Years (Annlzd)	6.67	6.25	3.53
Oct 01 - Sep 15 (Annlzd)	9.19	9.41	5.98

	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)
2005	6.92	3.77	12.64	9.59	10.92	4,653	0.39	0.00%	1,015.6	210.9
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

*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 April 2010, the composite name was changed from Strategy Value Managed Account Composite to provide additional clarification. Effective July 2013, performance for this composite is calculated in U.S. dollars net of foreign withholding taxes on dividends, interest, and capital gains. 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 June 30, 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 0.70%) 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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