

Strategic Value Dividend Managed Account Commentary May 2015

Market Overview

The month closed with the first revision to the first-quarter flash estimate of the U.S. gross domestic product (GDP), showing the economy entered contraction territory. A wider trade deficit, smaller inventory build and a downward tweak to already modest consumer spending drove the decline, putting real GDP at -0.7% annualized. The report was hardly surprising to the markets, which actually had been expecting a little worse. The bigger question is how much of a snapback to expect in the current quarter. Much of the data to date has been mixed to slightly better, with manufacturing inching forward but still struggling, services cooling a bit but still expanding robustly and consumer spending improving but still very subdued. About the only metric sending a clear upward signal is housing, where starts jumped and both new and existing home sales made a solid move up. Job growth did increase from March's dramatic slowdown and wage growth improved somewhat, but neither at a pace indicating much economic strength.

In fact, the course of the markets appears to be one of wait-and-see. The same could be said for oil, which has moved well off its recent floor but seems to be settling into a \$45-\$65 range. Supply and demand dynamics continue to suggest an oversupply relative to demand, but geopolitical uncertainties also are weighing on the market: Will there be a nuclear deal with Iran that subsequently floods the market? Will OPEC keep pumping as it works to hold onto market share or will it feel the need to pull back amid pressure from member countries? What will Russia do? As with the rest of the economy, only time will tell.

Strategic Value Dividend

Performance and Strategy

Dedicated to its goal of providing investors with a high and growing source of income, the Strategic Value Dividend portfolio provided a high dividend yield of 4.3% at month end. This surpassed not only the broad market represented by the S&P 500 Index with its 2.0% yield, but it also exceeded the 3.7% yield of the Dow Jones Select Dividend Index, which aims to reflect the domestic dividend-paying universe. The Strategic Value Dividend portfolio also experienced one dividend increase in May, courtesy of Williams Companies which increased its dividend payment by 10.3%. This is the second increase for Williams this year and the fourth over the past 12 months, for a cumulative increase of 50.6% for the trailing one year. Over that same 12 month period, 30 of the portfolio's 36 holdings increased their dividend distributions, and the portfolio realized 35 increases overall as this includes multiple raises from Williams Companies and Kinder Morgan which increased their dividends four times and three times, respectively. Additionally, one company within the portfolio, GlaxoSmithKline, declared a special dividend that will be payable in 2016. Of the portfolio's 36 stocks, 83% have paid consecutive annual dividends for the past 20 years, 61% have done so for the past 50 years and 19% have paid annual dividends for the past 100 years.

The S&P 500 climbed 1.3% in May, while the Dow Jones Select Dividend was relatively flat, posting a 0.1% return. The Strategic Value Dividend portfolio was also relatively flat, posting a -0.2% return for the month. The market was in a "risk on" environment as a low quality, low yield rally dominated investor preferences, creating a headwind for high quality dividend focused strategies, such as that of the portfolio. Consequently, three of the top four performing sectors in the broad market were cyclical and non-dividend friendly. These three sectors were, Information Technology, Financials and Consumer Discretionary, which advanced 2.3%, 1.8% and 1.3%, respectively. Health Care was the top performing sector, advancing 4.5% in May, rebounding off of a weak April return. Energy and Telecom Services were the notable laggards in the broad market posting returns of -4.8% and -1.8%, respectively. Defensive investments such as, Telecom Services, Utilities and REITs, came under short term price pressure due to speculation around when the Federal Reserve will raise rates.

The top contributing sector for the portfolio was Consumer Staples which advanced 1.0%. This was driven by tobacco names, Reynolds American and Altria, which both posted above-market returns of 4.7% and 2.3%, respectively. Although Utilities underperformed in May in the broad market, the portfolio benefitted from its Utilities investments, driven by U.K. domiciled National Grid, which posted a return of 6.3%. These positive contributions were more than offset by the portfolio's Energy holdings, which fell 4% thanks to a pullback in oil prices. That said, these Energy holdings are supportive of an income-oriented investment strategy evidenced by their average dividend yield of 5.2%.

Collectively, the portfolio's international investments detracted from performance, providing a combined return of -0.5%. This was principally driven by the portfolio's exposure to Canada and France, where the U.S. dollar strengthened versus the Canadian dollar and the euro. The portfolio's U.K. investments provided an offset, rising 0.7%, driven by the top performers in the portfolio, Vodafone (10.9%) and National Grid (6.3%).

The Strategic Value Dividend portfolio remains steadfastly focused on achieving its investment objectives regardless of market volatility, the possibility of rising rates, global inflation/deflation concerns, etc. Historically, investing in high yielding equities that exhibit dividend growth has not only provided large cash flows that rise over time, but it has also provided a strategy that has produced long-term total returns that have exceeded the broad market. Additionally, the large, high-quality companies that tend to fit into this high-yielding, dividend-growing mold typically offer lower downside risk in times of market distress due to their well-established market positions and their diversified business models. The Strategic Value Dividend portfolio is well positioned to provide investors with a portfolio that exhibits these features thanks to its dividend-oriented investment approach, allowing the portfolio to offer opportunities for a wide range of investors.

Data as of 5/31/15. 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 holdingspecific 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 5/31/15 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 **3/31/2015**

Returns (%)			
	Gross Composite Return	Index	Net Composite Return (Assuming Maximum Fee)
Q1 15	0.90	-0.96	0.14
YTD	0.90	-0.96	0.14
1 Year	8.69	10.13	5.49
3 Years (Annlzd)	13.60	15.87	10.27
5 Years (Annlzd)	14.30	15.46	10.96
7 Years (Annlzd)	7.99	8.97	4.81
10 Years (Annlzd)	7.75	7.83	4.57
Oct 01 - Mar 15 (Annlzd)	9.71	10.18	6.49

	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, valuation attractiveness, 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 Strategic 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 December 31, 2014. 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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