

Investment Team



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Staying Above the Fray: Trade Negotiations

Like the Rising Interest Rate Newsletter that has been refreshed half a dozen times over just as many years, we find ourselves once again revisiting the “Staying Above the Fray” newsletter series. In this installment, we focus on the potential impact trade negotiations with China and Mexico may have on our investments. Concerns regarding trade negotiations are two fold. First, how is the revenue of our large/mega cap multi-national companies potentially impacted, and secondarily how will our investments perform if volatile trade negotiations push the U.S. into a recession? The recent volatility in the market highlights the fact that these concerns are weighing on the minds of investors.

The first quarter saw the broad U.S. market advancing more than 13% as domestic markets seemed to be pinning their hopes on a U.S.-China trade deal. In hindsight, “Sell in May and Go Away” may have been prudent as the U.S. market reversed course and declined more than 6% on news that talks with China stalled and that President Trump intends to use tariffs as a political weapon to address illegal immigration at our southern border. And here in June, markets are humming again as the Chair of the Federal Reserve, Jerome Powell, has pledged that the central bank would lower interest rates if the economy slows in response to escalating tariffs and economic uncertainty.

To address the first concern regarding how trade negotiations may affect the revenue of our investments: While we acknowledge the potential business disruption associated with the institution of tariffs/Brexit/sanctions, etc., the Federated Strategic Value Dividend Fund (FSVF) and the Federated International Strategic Value Dividend Fund (FISVF) would likely see minimal impact. That is for the simple reason that most of our products are either locally made (food, beverage, tobacco, household products, personal care items, etc.), are commodities that trade globally (oil, natural gas), or are services not subject to sanctions (phone bills, utility bills, etc.) In other words, we do not manufacture high-value, complex items (cars, machinery, smartphones, etc.) which are at center of the current range of potential and real disruptions. The manufacturing/industrial complex is more affected by recent tariffs than other segments of the economy, posing a greater risk to cyclical companies than defensives. FSVF and FISVF focuses primarily on non-cyclical businesses, as they typically offer stable cash flow generation throughout the business cycle (and better support for dividend payments in periods of economic weakness than their more cyclical counterparts).

Yes, some of our products might be affected by tariffs on Mexico or on certain other commodities (pulp, resin) should they appear, but the impact to the overall portfolio of businesses would be modest. The vast majority of our companies’ sales constitute small-ticket items and monthly services –and many of these small-ticket items actually get made in the country/region in which they are ultimately sold – for example Coke is not shipping Diet Coke from Atlanta to Beijing. Our portfolio of companies generate on average about 2-3% of their revenues from China, so it’s a fairly small amount. P&G is one of the higher at 9% of sales from China – but also notes about 90% of what they sell here in the U.S. is manufactured here – they also called out China on their most recent earnings call as an area of superior growth where they continue to gain share. UPS has recently noted that the trade dispute has had some short term impact as customers pull inventory forward in anticipation of tariffs, and is also assisting customers with contingency planning and supply chain adjustments. As trade patterns shift, UPS will keep moving with the network.

Federated Strategic Value Dividend Fund

Federated International Strategic Value Dividend Fund

Revenue Exposure by Country

Revenue Exposure by Country

	% of Total Revenue		% of Total Revenue
United States	61.6%	United States	22.1%
United Kingdom	5.9%	Canada	15.9%
Canada	5.3%	United Kingdom	9.1%
Germany	2.6%	Italy	7.3%
China	2.6%	Germany	5.1%
France	1.5%	Japan	5.0%
Japan	1.2%	Australia	3.2%
Italy	1.1%	Brazil	3.0%
Brazil	1.1%	France	2.7%
Russian Federation	0.9%	China	2.5%
Total	83.8%	Total	76.0%

Source: Factset as of 5/31/2019

To address the second concern, how might our investments perform if volatile trade negotiations push the U.S. into a recession: The current market gyrations in response to uncertainty regarding trade, interest rates or even the upcoming election aren't abating anytime soon. We believe broad market volatility is here to stay. The Federated Strategic Value Dividend Fund and Federated International Strategic Value Dividend Fund attempt to side-step much of the market commotion and instead seek to anchor expectable total return in a high and rising income stream from high quality assets. With this approach and our low beta* of just 0.58 (FSVF) and 0.71 (FISVF) as of 5/31/19, we attempt to insulate our clients from the market's extreme levels driven by speculative market timers. Historically, our approach has captured much of the market's upside but more importantly, has proven defensive in the inevitable downturns. From our vantage, we are happy to trundle along, clipping our coupons, and avoiding these obvious pitfalls.

Do trade tensions lead to the next recession or does the secular bull market carry on? It depends on who you ask but we don't know too many folks who are willing to bet their retirement on getting the answer correct to this question. We prefer to stay above the market fray.....

** Factset 3-year beta versus S&P 500 Index calculated using monthly returns for FSVF and Factset 3-year beta versus MSCI World Ex U.S. Index calculated using monthly returns for FISVF. Beta analyzes the market risk by showing how responsive the strategy is to the market. The beta of the market is 1.00. Accordingly, a strategy with a 1.10 beta is expected to perform 10% better than the market in up markets and 10% worse in down markets. Usually the higher betas represent riskier investments.*

See last page for standard fund performance and holdings information.

Past performance is no guarantee of future results.

Because this is a managed fund, the investment mix will change and the holdings are not indicative of future fund composition. Marketplace conditions fluctuate suddenly and frequently, and investment manager's opinions may change.

Because the portfolios may allocate relatively more assets to certain industry sectors than others, the performance may be more susceptible to any developments which affect those sectors emphasized by the portfolios.

Views are as of 6/13/19, and are subject to change based on market conditions and other factors.

These views should not be construed as a recommendation for any specific security or sector

There is no guarantee that dividend paying stocks will continue to pay dividends. In addition, dividend paying stocks may not experience the same capital appreciation potential as non-dividend paying stocks.

International investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards. Prices of emerging markets securities can be significantly more volatile than the prices of securities in developed countries and currency risk and political risks are accentuated in emerging markets.

Holdings as of 5/31/19		Federated Strategic Value Dividend	Federated International Strategic
		Fund	Value Dividend Fund
	Coca-Cola Co.	3.82%	0.00%
	Procter & Gamble Co.	1.36%	0.00%
	United Parcel Service, Inc.	2.33%	0.00%
	Communication Services	14.27%	19.74%
	Consumer Staples	22.03%	8.27%
	Energy	15.80%	13.88%
	Utilities	19.02%	19.48%
	Beverages	6.94%	0.00%
	Food Products	0.96%	0.90%
	Household Products	4.47%	0.00%
	Multi-Utilities	8.03%	4.65%
	Personal Products	0.00%	1.44%
	Oil Gas & Consumable Fuels	15.80%	13.88%
	Tobacco	9.67%	5.93%
	Wireless Telecom Services	1.81%	3.63%

Portfolio composition percentages are based on net assets at the close of business on 5/31/19 and may not necessarily reflect adjustments that are routinely made when presenting net assets for formal financial statement purposes.

Average Annual Total Returns (%) as of 5/31/19

Performance shown is before tax.

Federated Strategic Value Dividend Fund

NAV	Performance	Cumulative				Since
	Inception	3 Month	1 Year	5 Year	10 Year	Inception
IS Shares	3/30/05	-1.93	3.68	5.31	11.16	6.98
A Shares	3/30/05	-2.00	3.44	5.04	10.88	6.70
Maximum Offering Price						
A	3/30/05	-7.31	-2.26	3.87	10.27	6.28

Average Annual Total Returns (%) as of 5/31/19

Performance shown is before tax.

Federated International Strategic Value Dividend Fund

NAV	Performance	Cumulative				Since
	Inception	3 Month	1 Year	5 Year	10 Year	Inception
IS Shares	6/4/08	-2.24	0.21	-2.40	4.40	0.28
A Shares	6/4/08	-2.30	-0.04	-2.63	4.19	0.07
Maximum Offering Price						
A	6/4/08	-7.71	-5.56	-3.71	3.60	-0.45

Performance quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate so that an Investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than what is stated. To view performance current to the most recent month-end, and for after tax returns, contact us or visit FederatedInvestors.com. Maximum Offering Price figures reflect the maximum sales charge of 5.5% for Class A Shares. See the prospectus for other fees and expenses that apply to a continued investment in the fund.

Average Annual Total Returns as of 3/31/2019

Federated Strategic Value Dividend Fund	1 Year	3 Years	5 Years	10 Years	Since Inception
A Shares (NAV)	9.04%	6.09%	7.40%	12.38%	7.16%
A Shares (MOP)	3.04%	4.11%	6.20%	11.74%	6.73%
IS Shares	9.27%	6.33%	7.67%	12.69%	7.44%

Federated International Strategic Value Dividend Fund	1 Year	3 Years	5 Years	10 Years	Since Inception
A Shares (NAV)	0.75%	1.91%	-0.98%	6.36%	0.35%
A Shares (MOP)	-4.90%	0.01%	-2.09%	5.75%	-0.17%
IS Shares	0.99%	2.06%	-0.75%	6.60%	0.56%

Performance quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate so that an Investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than what is stated. To view performance current to the most recent month-end, and for after tax returns, contact us or visit FederatedInvestors.com. Maximum Offering Price figures reflect the maximum sales charge of 5.5% for Class A Shares. See the prospectus for other fees and expenses that apply to a continued investment in the fund.

Total return represents the change in value of an investment after reinvesting all income and capital gains. Total return would have been lower in the absence of temporary expense waivers or reimbursements.

Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. To obtain a summary prospectus or prospectus containing this and other information, contact us or visit FederatedInvestors.com. Please carefully read the summary prospectus or the prospectus before investing.

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