

# Federated Capital Income Fund

1Q  
2019

3/31/19

## Fund Facts

### Performance Inception Date

5/27/88

### Benchmark

40% Russell 1000<sup>®</sup> Value Index/20% Bloomberg Barclays Emerging Markets USD Aggregate Index/20% Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index/20% Bloomberg Barclays U.S. Mortgage Backed Securities Index

### Morningstar Category

Allocation - 30% to 50% Equity

### Lipper Classification

Mixed-Asset Target Allocation Conservative Funds

### Fund Assets

\$1.3 billion

### Ticker Symbols

Institutional Shares - CAPSX  
A Shares - CAPAX  
C Shares - CAPCX  
F Shares - CAPFX  
R Shares - CAPRX

### Key Investment Team

John Nichol, CFA  
Linda Bakhshian, CPA, CA  
Jerome Conner, CFA  
Todd Abraham, CFA  
Mark Durbiano, CFA  
Ihab Salib

## Fund Description

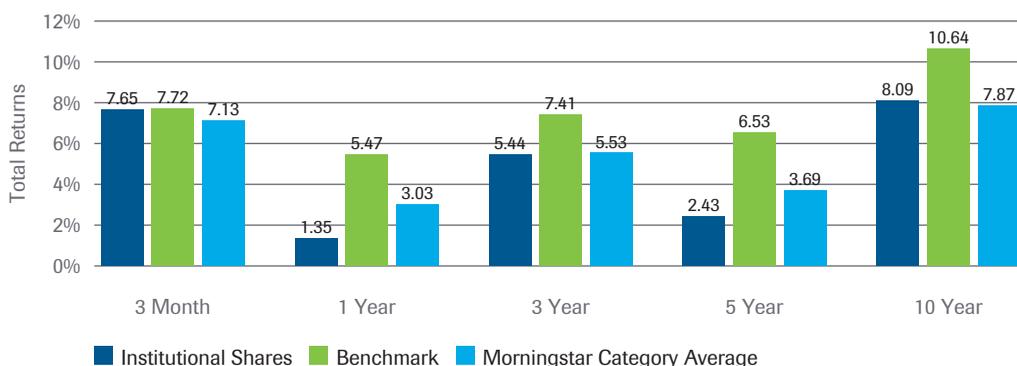
The fund pursues monthly income, long-term growth of income and capital appreciation and seeks to deliver this objective through a diversified portfolio of income-producing stocks and bonds.

## Performance

### Average Annual Total Returns (%)

Performance shown is before tax.

	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	15 Year	Since Inception	Expense Ratio*	
									Before Waivers	After Waivers
Institutional Shares	7.65	7.65	1.35	5.44	2.43	8.09	5.73	6.46	0.83	0.65
A Shares (NAV)	7.60	7.60	0.97	5.13	2.17	7.94	5.63	6.43	1.08	0.90
A Shares (MOP)	1.71	1.71	-4.54	3.15	1.02	7.33	5.23	6.24	1.08	0.90
Benchmark	7.72	7.72	5.47	7.41	6.53	10.64	7.13	-	-	-



### Calendar Year Returns (%)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Institutional Shares	-6.89	10.31	8.17	-5.94	2.59	13.04	11.11	4.67	11.32	28.10
Benchmark	-3.86	9.06	12.68	-0.94	8.79	—	—	—	—	—
Morningstar Category Average	-5.04	9.86	6.62	-2.37	3.90	7.07	9.22	1.74	10.01	20.38

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](http://FederatedInvestors.com). Maximum Offering Price figures reflect the maximum sales charge of 5.5% for A Shares. See the prospectus for other fees and expenses that apply to a continued investment in the fund.

\* The fund's expense ratio is from the most recent prospectus. The expense ratio may reflect voluntary fee waivers and/or expense reimbursements determined by the fund's Advisor and its affiliates. The voluntary waivers and/or reimbursements, if applicable, are in effect up to but not including the later of 2/1/20 or the date of the fund's next effective prospectus.

## Distinguishing Characteristics

<b>Income-Focused Approach</b>	Combines income-producing and dividend-growing stocks and bonds	Potential for relatively high monthly income and dividend growth as inflation protection
<b>Differentiated Portfolio</b>	Strategic diversification across asset classes, sectors and securities	Balanced approach for investors seeking current income and long-term capital appreciation
<b>Long-Term Potential</b>	A team of managers experienced in providing income in various market cycles	Potential for lower volatility than a typical equity fund and higher capital appreciation than a typical bond fund

## Portfolio Statistics

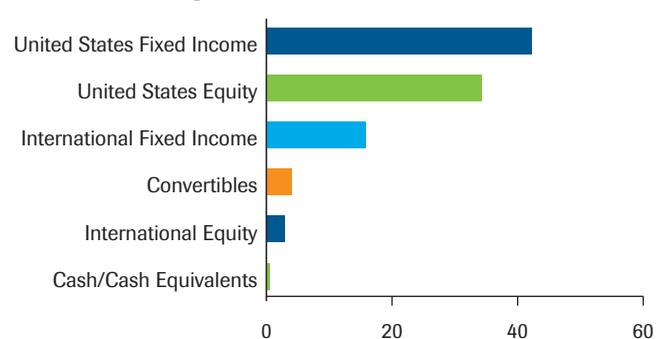
Equity	
Weighted Average P/E (NTM)	16.7x
Number of Equity Securities	174
Weighted Average Market Cap	\$117.6 b
Fixed Income	
Weighted Average Effective Maturity	6.0 Yrs.
Weighted Average Duration	4.2 Yrs.
Number of Fixed Income Securities	165
30-Day Yield (IS)	3.65%
30-Day Yield (A)	3.21%
12-Month Yield (IS)	4.30%
12-Month Yield (A)	4.05%

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## Top Holdings (%)

Equity Portfolio	
Comcast Corp., Class A	1.1
AT&T, Inc.	1.0
Cisco Systems, Inc.	0.9
Intel Corp.	0.9
Johnson & Johnson	0.9
Fixed-Income Portfolio	
High Yield Bond Portfolio	24.4
Emerging Markets Core Fund	14.6
Federated Mortgage Core Portfolio	12.3

## Portfolio Composition (%)



Short fixed-income futures were -7.7%; long fixed-income futures were 11.9%; and delta adjusted purchased equity put options were -1.4%. Futures contracts do not require cash outlay; the notional value is reported.

Portfolio composition is based on net assets at the close of business on 3/31/19 and may not necessarily reflect adjustments that are routinely made when presenting net assets for formal financial statement purposes. Because this is a managed portfolio, the investment mix will change.

## Highlights

- The S&P 500 rebounded from 2018's weak fourth quarter to post its largest quarterly gain since 2009
- The Federal Reserve (Fed) became more dovish in the first quarter, lowering its rate hike projection for the year from two to zero
- Optimism that a trade deal between the U.S. and China will be reached in the near future was a tailwind for equities

## Looking Back

In the first quarter of 2019, domestic equity markets recover from 2018's volatile fourth quarter, with the S&P 500 Index returning more than 13% for the first three months of the year, its largest quarterly gain since 2009. Several factors drove the rally, including receding fears of an imminent recession, an end to the longest government shutdown in history, a more dovish Fed and high hopes for a U.S.-China trade resolution. After forecasting three rate hikes for 2019 last September, then just two rate hikes for the year in its December meeting, the Fed signaled at its March meeting that it now plans none for 2019. Equity investors viewed the dovish pivot as a significant tailwind as it reduced the probability of a Fed-driven recession. Throughout the quarter, investors continued to focus on the ongoing U.S.-China trade talks. While no deal had been reached as of the end of March, there is growing optimism Presidents Trump and Xi will be able to reach an accord sooner rather than later.

Treasury yields decreased across the curve during the quarter on the Fed's dovish turn. The yield curve continued to flatten—though it was a bull flattener—with the yield on the 2 year Treasury bond decreasing approximately 23 basis points while the 10-year Treasury yield decreased 28 basis points. The 3-month/10-year Treasury yield curve inverted for a few days just prior to the end of the quarter.

During the quarter, the Bloomberg Barclays Aggregate Index returned 2.94%, the Bloomberg Barclays Mortgage Index returned 2.17%, the Bloomberg Barclays High Yield (HY) 2% Issuer Cap Index returned 7.26% and the Bloomberg Barclays Emerging Markets (EM) USD Aggregate Index returned 5.43%. In addition, the S&P 500 Index returned 13.65% and the Russell 1000 Value Index returned 11.93%.

## Performance

Federated Capital Income Fund A Shares returned 7.60% at Net Asset Value for the first quarter of 2019, underperforming the 7.72% return of the fund's benchmark comprising of 40% Russell 1000 Value Index, 20% BBHY2%ICI, 20% BBMB, and 20% BBEMB Index.

### Performance Contributors

- Equity overweight position in Information Technology sector and underweight in the Financials sector
- Stock selection in the Financials and Information Technology sectors
- Fixed Income underweight in mortgage-backed securities, and High Yield and EM security selection

### Performance Detractors

- Value underperforming Growth was a structural headwind for equities
- Negative stock selection within the Industrials and Consumer Staples sectors
- Fixed-income short duration

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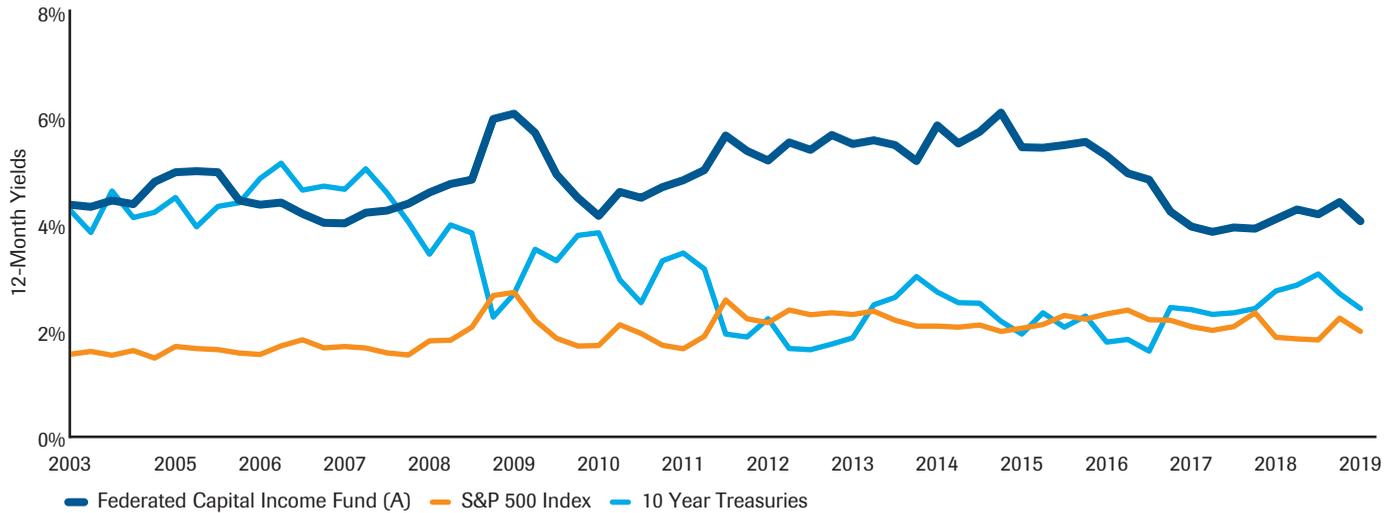
## How We Are Positioned

As the second quarter of 2019 gets underway, the sharp move up in the first quarter has helped sentiment but not completely erased recession fears at the forefront of investors' minds in late 2018. We view this skepticism as necessary to continue moving the equity market in a positive direction. While the sharp V-shaped bounce has been welcome, we still believe bouts of volatility will creep up. The trade war with China seems to be moving in the right direction and we believe some sort of agreement will be reached as it is in the best interests of both countries. But it is not a certainty. We want to see signatures on paper as there are still multiple outcomes that could have very different market responses. A more comprehensive-than-expected deal would be quite welcome, but failure to seal an agreement most likely would be met by negative market reaction. We also are keenly watching a number of other developments, including Brexit, the health of the Chinese and European economies, and the ongoing European tariff threats. In the near term, the U.S. earnings season surely will test the market's resolve as events of the first quarter will have had an ongoing impact on CEO confidence and guidance. We are cautiously optimistic on earnings, but note that first-quarter earnings are likely to be muted, while remaining quarters of the year hopefully will be stronger. Overall, we remain broadly diversified within equity market sectors, with a prudent approach to balancing income, risk and long-term total return.

In fixed income, most incoming data continues to indicate the U.S. economy will continue to expand, albeit at a slower pace than 2018, with recession risks in the near to intermediate term relatively low. Job and wage growth continue to make steady gains, productivity has increased and corporate profits continue to be strong. The increase in wages has not found its way into broad measures of inflation for goods and services, giving the Fed the ability to be patient before continuing with any additional tightening. The strong performance in the HY and investment-grade corporate bonds during the first quarter has lowered risk premium, with the spread over Treasuries well off of December's highs. We expect corporate debt generally will outperform Treasuries while the economy remains strong, especially in light of the strong rally in Treasuries in the first quarter on the Fed's dovish guidance. While spreads have tightened, there is potential for some smaller, additional spread tightening if equity volatility continues to subside, in addition to higher yields corporate debt provides. As a result, the fixed income portfolio's duration remains slightly less than the duration of the benchmark, and the yield-curve positioning is a steepener. We remain slightly overweight HY and EM debt.

*See disclosure section for important disclosures and definitions.*

### The Fund Delivered Higher Yield



Source: Federated Investors  
 \* As of 3/31/19

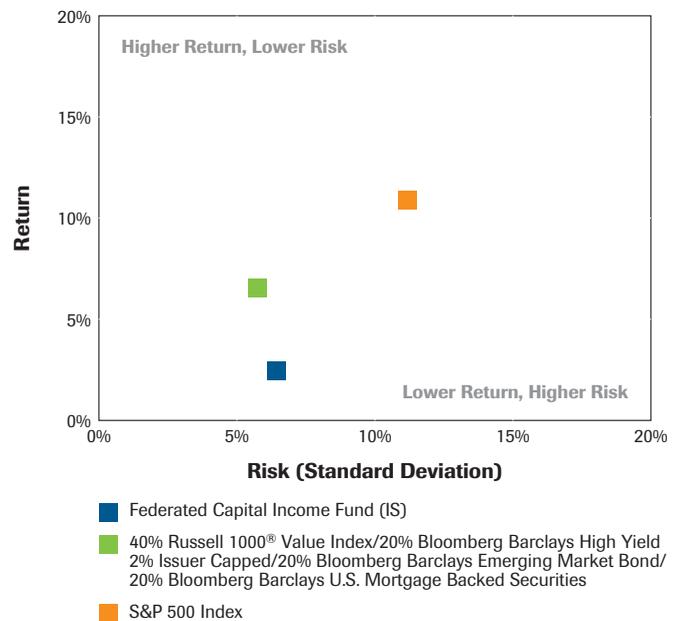
### Risk Statistics

	3 Year	5 Year	7 Year	10 Year
Standard Deviation	5.62	6.42	6.45	7.32
Beta	0.49	0.52	0.53	0.53
Correlation	0.93	0.91	0.90	0.92
R <sup>2</sup>	86.25	81.91	80.35	83.90
Tracking Error	5.88	6.04	5.80	6.66

Sources: Federated Investors, Morningstar, Inc.  
 Fund vs. S&P 500 Index

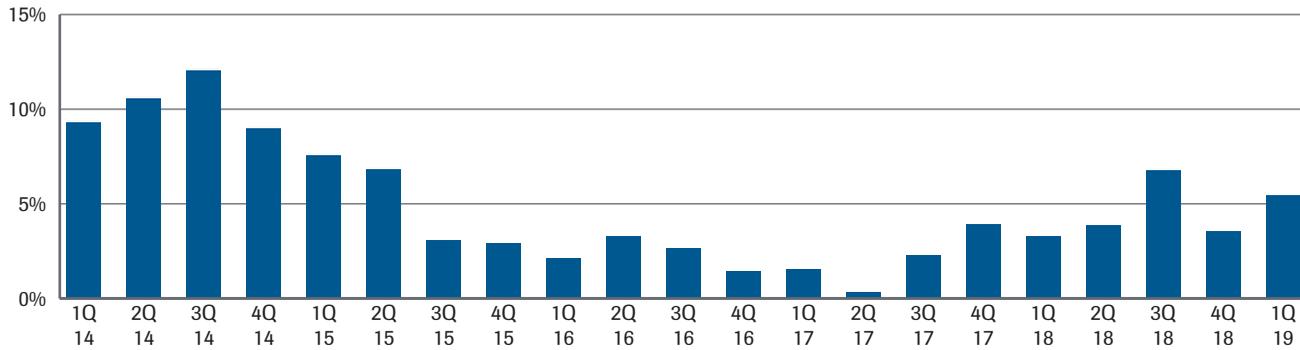
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### 5-Year Risk/Return



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### 3-Year Rolling Returns (IS)



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### Category Rankings

#### Morningstar Allocation - 30% to 50% Equity Category

IS Shares	1 Year	3 Year	5 Year	10 Year
Morningstar Category % Rank	85	53	90	39
Morningstar Category Rank	464 of 558 Funds	259 of 488 Funds	343 of 386 Funds	-
A Shares	1 Year	3 Year	5 Year	10 Year
Morningstar Category % Rank	90	64	93	45
Morningstar Category Rank	493 of 558 Funds	307 of 488 Funds	358 of 386 Funds	116 of 268 Funds

#### Lipper Mixed-Asset Target Allocation Conservative Funds

IS Shares	1 Year	3 Year	5 Year	10 Year
Lipper Classification % Rank	86	28	85	-
Lipper Classification Rank	292 of 341 Funds	87 of 319 Funds	237 of 278 Funds	-
A Shares	1 Year	3 Year	5 Year	10 Year
Lipper Classification % Rank	90	36	92	24
Lipper Classification Rank	306 of 341 Funds	115 of 319 Funds	254 of 278 Funds	49 of 208 Funds

Past performance is no guarantee of future results. Rankings are based on total return and do not take sales charges into account.

30-day yield (also known as “SEC yield”) is a compounded and annualized figure calculated according to a formula set by the SEC. The formula requires use of a specific methodology for calculating dividends and interest earned, and expenses accrued, during the period, and reflects the maximum offering price per fund share. The standardized computation is designed to facilitate yield comparisons among different funds. In the absence of temporary expense waivers or reimbursements, the 30-day yield would have been 3.47% for IS Shares and 3.04% for A Shares. Yields for other classes will vary.

The 12-month yield for A Shares is the sum of a fund’s total trailing 12-month interest and dividend payments divided by the last month’s ending share price (NAV) plus any capital gains distributed over the same period.

The fund’s Institutional Shares commenced operations on March 30, 2012. For the period prior to the commencement of operations of the Institutional Shares, the performance information shown is for the fund’s A Shares. The performance of the A Shares has not been adjusted to reflect the expenses of the Institutional Shares since the Institutional Shares have a lower expense ratio than the expense ratio of the A Shares. The performance shown has been adjusted to reflect differences between the sales loads and charges imposed on the purchase and redemption of the fund’s A Shares and Institutional Shares and to remove any voluntary waiver of fund expenses related to the A Shares that may have occurred during the period prior to the commencement of operations of the Institutional Shares.

### A Word About Risk

Mutual funds are subject to risks and fluctuate in value.

International investing involves special risks, including currency risk, increased volatility, political risks, and differences in auditing and other financial standards. Prices of emerging market 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.

High-yield, lower-rated securities generally entail greater market, credit/default and liquidity risks, and may be more volatile than investment-grade securities.

Diversification does not assure a profit nor protect against loss.

Bond prices are sensitive to changes in interest rates, and a rise in interest rates can cause a decline in their prices.

There are no guarantees 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.

### Definitions

**Bloomberg Barclays Emerging Markets USD Aggregate Index** tracks total returns for external-currency-denominated debt instruments of the emerging markets: Brady bonds, loans, Eurobonds, and U.S. dollar-denominated local market instruments. Countries covered are Argentina, Brazil, Bulgaria, Ecuador, Mexico, Morocco, Nigeria, Panama, Peru, the Philippines, Poland, Russia, and Venezuela.

**Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index** is an issuer-constrained version of the flagship U.S. Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index wide on a pro rata basis. The index was created in 2002, with history backfilled to January 1, 1993.

**Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index** tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

**Russell 1000® Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® Index companies with lower price-to-book ratios and lower expected growth values. The R1000V is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Russell 1000® Value Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

**S&P 500 Index** is an unmanaged capitalization-weighted index of 500 stocks designated to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Indexes are unmanaged and cannot be invested in directly.

**Beta** measures a portfolio’s volatility relative to the market. A Beta greater than 1.00 suggests the portfolio has historically been more volatile than the market as measured by the fund’s benchmark. A Beta less than 1.00 suggests the portfolio has historically had less volatility relative to the market.

**Correlation** is the degree to which one variable (here, the fund’s returns) fluctuates relative to another (the returns of the fund’s benchmark).

Correlation ranges from 1.00, when two variables move identically in the same direction, to -1.00, when two variables move identically in the opposite direction.

**R-Squared** indicates what percentage of a portfolio’s movement in performance is explained by movement in performance of the market. R-squared ranges from 0 to 100, and a score of 100 suggests that all movements of a portfolio’s performance are completely explained by movements in the market as measured by the fund’s benchmark.

**Standard Deviation** is a historical measure of the variability of returns relative to the average annual return. A higher number indicates higher overall volatility.

**Tracking Error** is the difference between a portfolio’s returns and the benchmark or index it was meant to mimic or beat.

**Weighted Average Duration** (sometimes called “Option-Adjusted Duration”) is a measure of a security’s price sensitivity to changes in interest rates calculated using a model that recognizes that the probability of a bond being called or remaining outstanding until maturity may vary if market interest rates change, and that makes adjustments based on a bond’s embedded options (e.g., call rights, or in the case of a mortgage-backed security, the probability that homeowners will prepay their mortgages), if any, based on the probability that the options will be exercised. A fund’s weighted average duration will equal the market value weighted average of each bond’s duration in the fund’s portfolio. As with any model, several assumptions are made so the weighted average duration of a fund in the Federated family of funds may not be comparable to other funds outside of the Federated family of funds. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

**Weighted Average Effective Maturity** is the average time to maturity of debt securities held in the fund.

**Weighted Average Market Capitalization** is calculated as the average market capitalization of the stocks within the portfolio, weighted by the amount of each stock owned.

**Weighted Average P/E (NTM—Next Twelve Months)** is an average comparing share price to earnings per share with values greater than 75 are capped at 75 and excludes negatives.

### Ratings and Rating Agencies

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This must be preceded or accompanied by a prospectus.