

Intelligent International Investing

Emerging Markets: The Road Ahead

Presented by:

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Vice President
Client Portfolio Manager
International Equity Strategist

■ Stability

- Ranks as a leading global investment manager, managing approximately \$350 billion* in assets, delivering competitive and consistent results since 1955 and fostering growth by reinvesting in the company

■ Investment Solutions

- Offers broad product lines spanning domestic and international equity, fixed income, alternative and money market strategies with the goal of long-term consistent, competitive performance

■ Diligence

- Takes the long view, believing that doing business the right way over time will present opportunity for future growth

** As of June 30, 2011*

Emerging Markets Have Higher Sovereign Quality: A Tale of Divergence

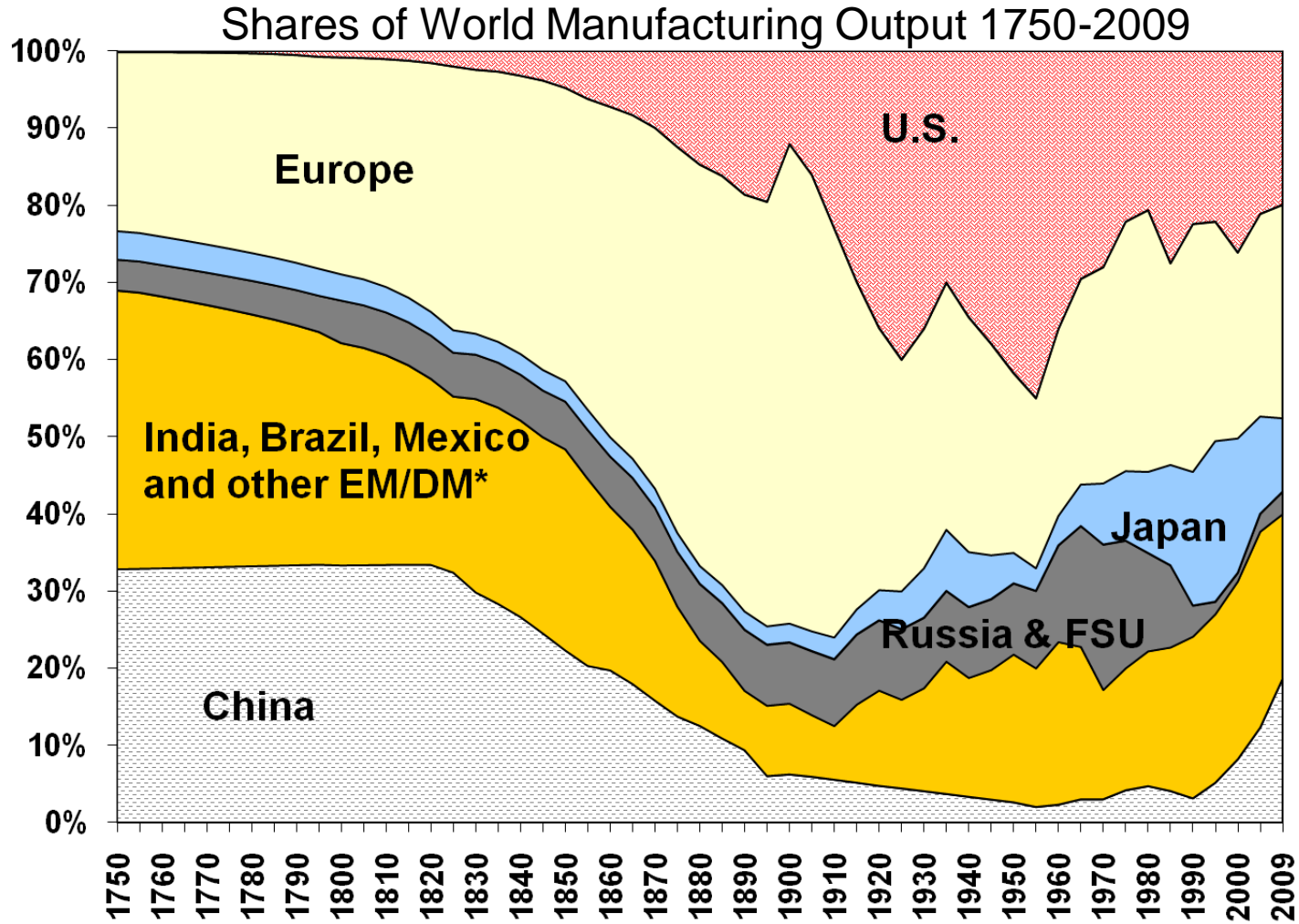
- Founded in 1955
- Deep historical commitment to proprietary research
- Assets under management: \$350 billion¹
 - 20th Largest Manager of Institutional Assets in the U.S.²
 - 19th Largest Manager of Defined Contribution Assets³
 - Offices in Pittsburgh, New York, Rochester, Boston, Frankfurt and Dublin
- Multi-product investment firm – structured into teams of investment specialists
- Investment and operating teams – among the most experienced and tenured in the industry
- Skilled professionals – strong ability to attract and retain highly skilled investment and operating professionals
- Equity ownership – Federated employees share in approximately 20% of the firm's equity ownership
- One business – investment management
- NYSE listed, privately controlled firm
- Successful, measured growth
- Sound, stable and financially strong organization – high degree of organizational stability and financial strength

1. As of 6/30/11

2. Source: *Pensions & Investments*, 5/31/09

3. Source: *Pensions & Investments*, 10/4/10

Déjà vu All Over Again



Source: Morgan Stanley- Paul Bairoch, "International Industrialization Levels from 1750-1890" Journal of European Economic History; Samuel P. Huntington, "The clash of civilizations and the remaking of world order; Manufacturing Value added from International Yearbook, United Nation Statistical Database, Euromonitor, IHS Global Insight, Morgan Stanley Research. *In 2009, all non-China EM countries (ex Russia & FSU) combined accounted for 18.2% of manufacturing output versus 3.1% for smaller DM markets. Since 1970, Europe comprises Developed European countries only

.... And Again

World's Top 10 Economies (% of global GDP)

	1820		2010		2050E
China	28.7%	U.S.	23.4%	China	25.6%
India	16.0%	China	9.4%	U.S.	20.3%
France	5.4%	Japan	8.8%	India	16.0%
U.K.	5.2%	Germany	5.3%	Japan	3.9%
Prussia	4.9%	France	4.1%	Brazil	3.5%
Japan	3.1%	U.K.	3.6%	Russia	3.4%
Austria	1.9%	Brazil	3.4%	Indonesia	2.3%
Spain	1.9%	Italy	3.3%	U.K.	2.2%
U.S.	1.8%	India	2.8%	Germany	2.1%
Russia	1.7%	Canada	2.5%	Mexico	2.0%

Source: World Bank/Angus Maddison. The World Economy: Historical Statistics
PricewaterhouseCoopers/Michael Milken Institute, Chairman, Fastcures/Goldman Sachs

How to Approach Investing in the Emerging Markets

Artificial Groupings Don't Make Sense

Emerging Markets

21 developing economies

BRIC

Brazil, Russia, India China

CIVETS

Columbia, Indonesia, Vietnam, Egypt, Turkey, South Africa

Frontier Markets

25 pre-emerging economies

IBSA

India, Brazil, South Africa

BASIC

Brazil, South Africa, India, China

Asian Tigers

Hong Kong, Singapore, South Korea, Taiwan

ASEAN

10 southeast Asian economies

How Long Are You Emerging Before You Emerge

Is looking at EM vs. DM the best approach?

- Systematic analysis of risk incorporates a wide range of factors:
 - **Economic & Business:** Size, Diversity, Income, Global Competitiveness, Central Bank Policy, Oversight and Regulation
 - **Political & Cultural:** Govt. Type, Legal System, Corruption, Ethnic Homogeneity, Education, Alliances, Treaties
 - **Risk:** Asset Seizures, Credit, Currency, Volatility, Market Diversity
 - **Trading:** Liquidity, Bid/Ask Spreads, Commission Costs, Trading Systems, Ownership Restrictions, Transparency

Low Risk: Broad, mature developed markets

Low	Canada
Low	Switzerland
Low	Singapore
Low	United Kingdom
Low	Sweden
Low	Germany
Low	Netherlands
Low	Hong Kong
Low	Australia
Low	Japan
Low	France
Low	Denmark

Moderate Risk: Narrower but mature developed markets. Advanced emerging markets

Moderate	Finland
Moderate	Taiwan
Moderate	Norway
Moderate	New Zealand
Moderate	Austria
Moderate	Korea
Moderate	Belgium
Moderate	Ireland
Moderate	Spain
Moderate	Israel
Moderate	Chile
Moderate	Malaysia

High Risk: Small developed markets. Emerging markets with higher volatility

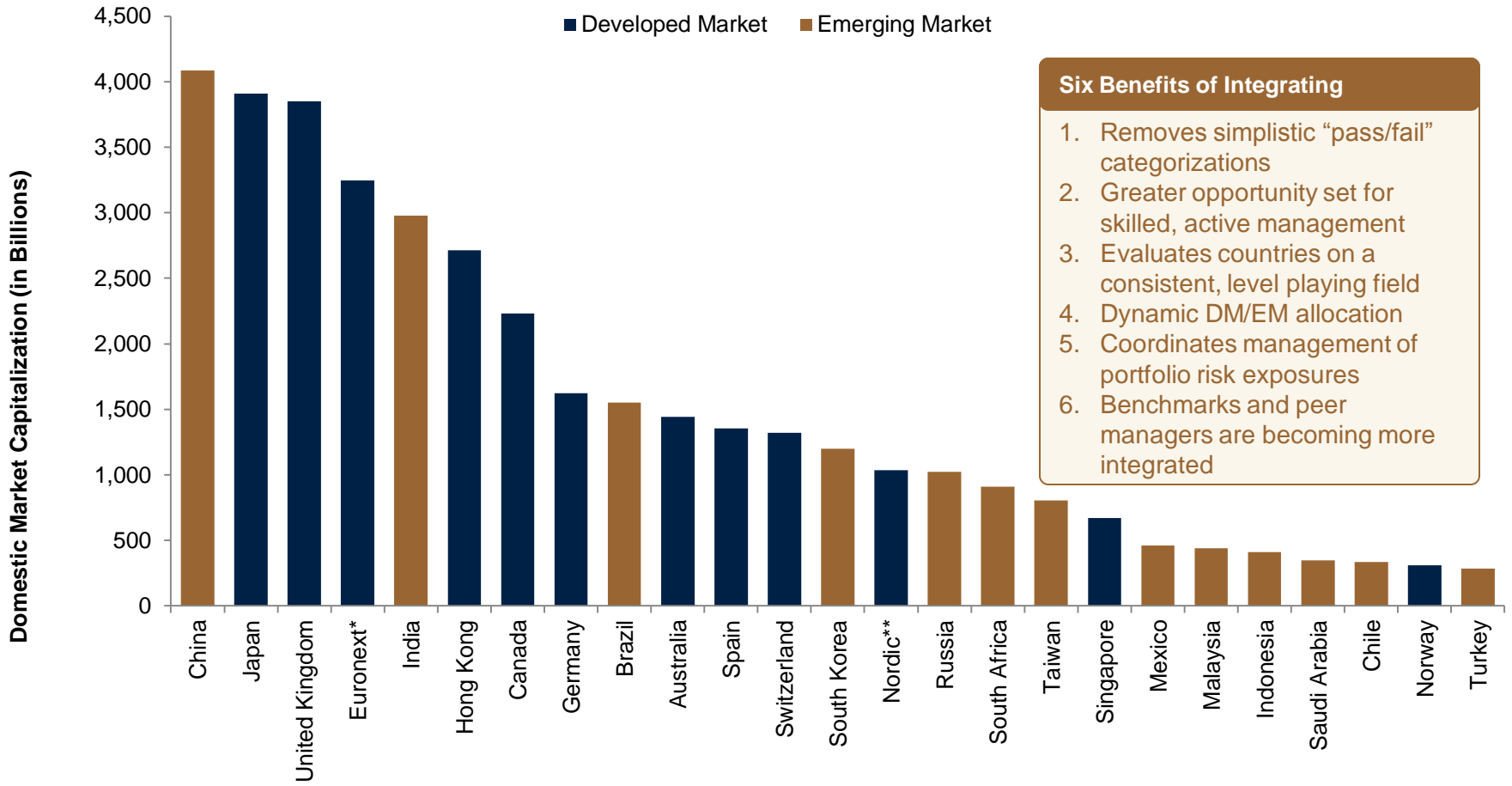
High	South Africa
High	Italy
High	China
High	Portugal
High	Mexico
High	Brazil
High	Poland
High	India
High	Czech Republic
High	Turkey
High	Indonesia

Excessive Risk: Less stable countries. Stock prices more subject to unpredictable, exogenous events

Excessive	Thailand
Excessive	Russia
Excessive	Greece
Excessive	Hungary
Excessive	Peru
Excessive	Kuwait
Excessive	Philippines
Excessive	Egypt
Excessive	Viet Nam
Excessive	Colombia
Excessive	Morocco

Benefits of Integrating Developed and Emerging Markets

According to MSCI, 13 of the top 25 international stock markets are classified as Emerging



Six Benefits of Integrating

1. Removes simplistic “pass/fail” categorizations
2. Greater opportunity set for skilled, active management
3. Evaluates countries on a consistent, level playing field
4. Dynamic DM/EM allocation
5. Coordinates management of portfolio risk exposures
6. Benchmarks and peer managers are becoming more integrated

* Euronext was formed following a merger of the Paris, Amsterdam, Brussels and Lisbon stock exchanges, Additionally, Euronext has acquired the shares of the London International Financial Futures and Options Exchange (LIFFE), which continues to operate under its own governance and is not included in the domestic market cap listed in the above chart.

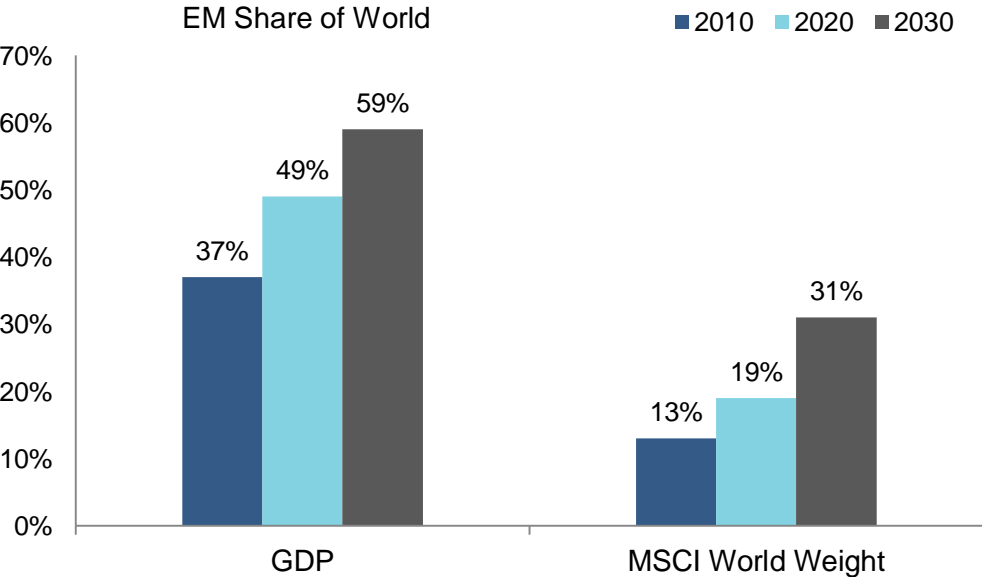
** The Nordic Exchange combines the exchanges in Helsinki, Copenhagen, Stockholm, Iceland, Tallinn, Riga, and Vilnius.

Source: MSCI, World Federation of Exchanges and Federated Investors. Data as of June 30, 2011.

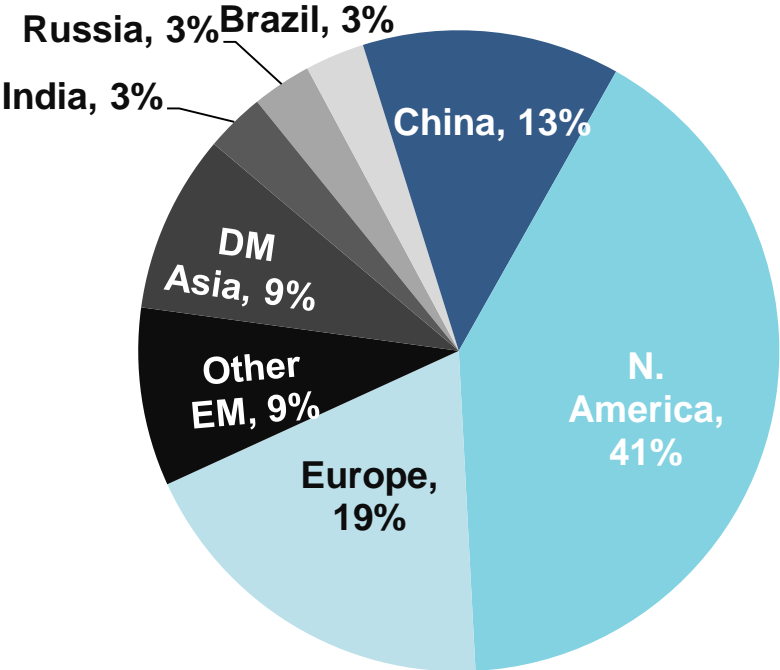


Stock Market Capitalization Shifting Away from the US

EM Equities May Represent 31% of Global Market Cap by 2030



2030: Global Market Cap Composition



Source: IMF, MSCI, FactSet, World Bank, World Federation of Exchange and Goldman Sachs Global ECS Research Estimates. Data as of 9/30/2010

Emerging Market Exposure Continues to Grow

ACWI Ex-U.S. Universe Quarterly Emerging Markets Allocation 2000-2010



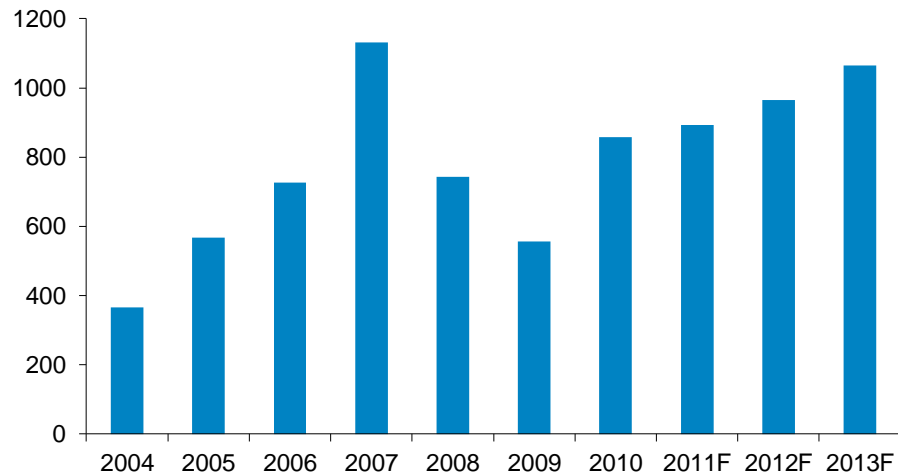
Source: InterSec Research

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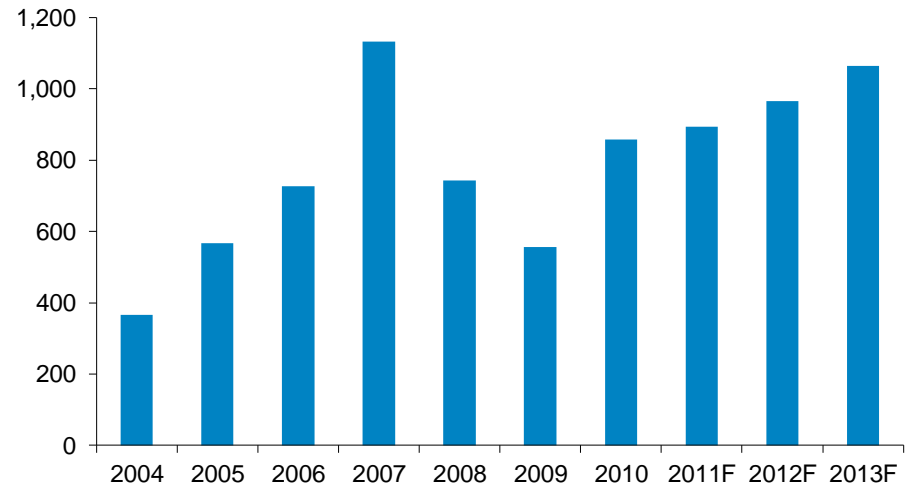


Capital Flows to Emerging Markets Continue to Grow

Foreign Direct Investment Inflows to EM (\$bn)



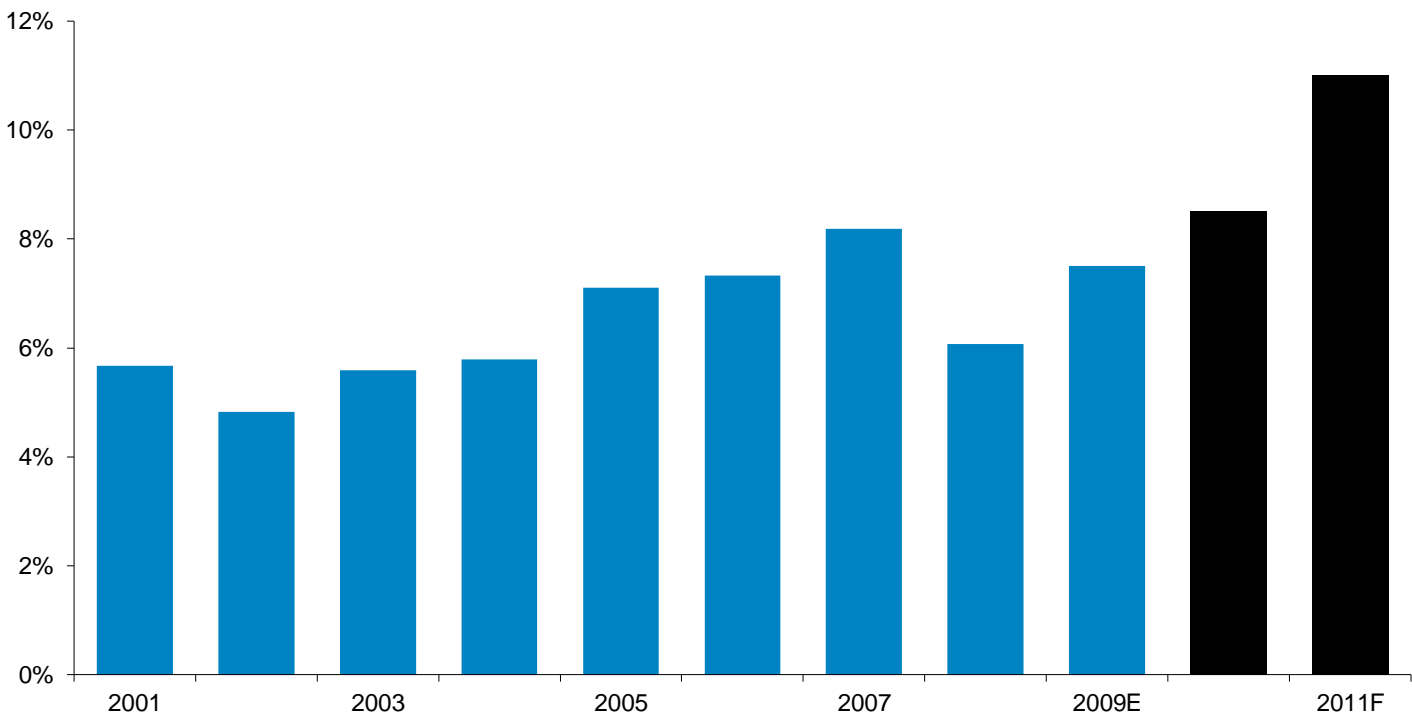
Net Private Sector Investment Flows to EM (\$bn)



Source: World Bank

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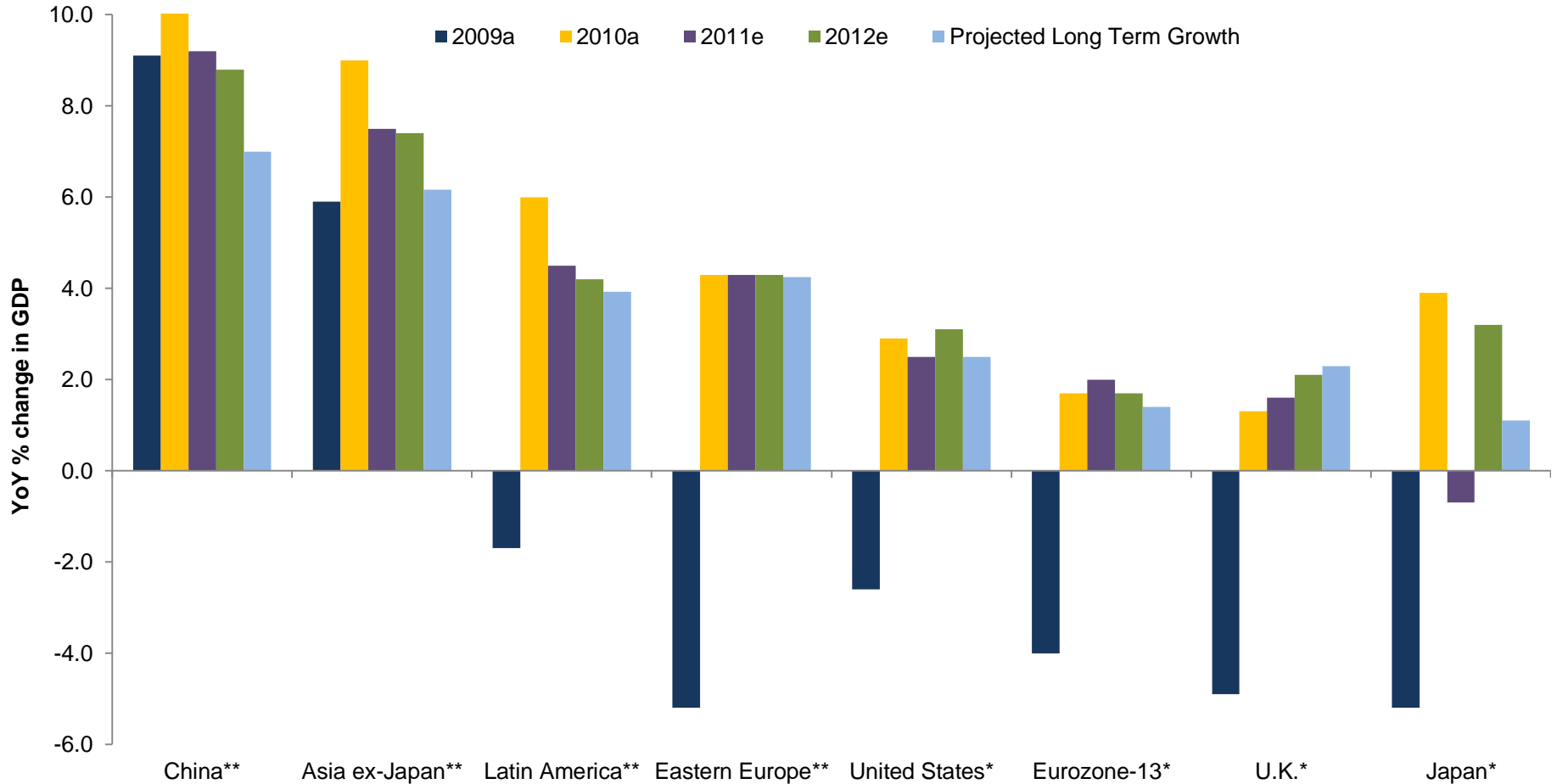
DM Portfolio Allocation in EM (Equity and Fixed Income, % Total)



Source: Morgan Stanley, Consultant Estimates, IMF CPIS

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Emerging Market Growth is One on Main Attractions for Investors



*Long Term Growth forecast from 2017 – 2021.

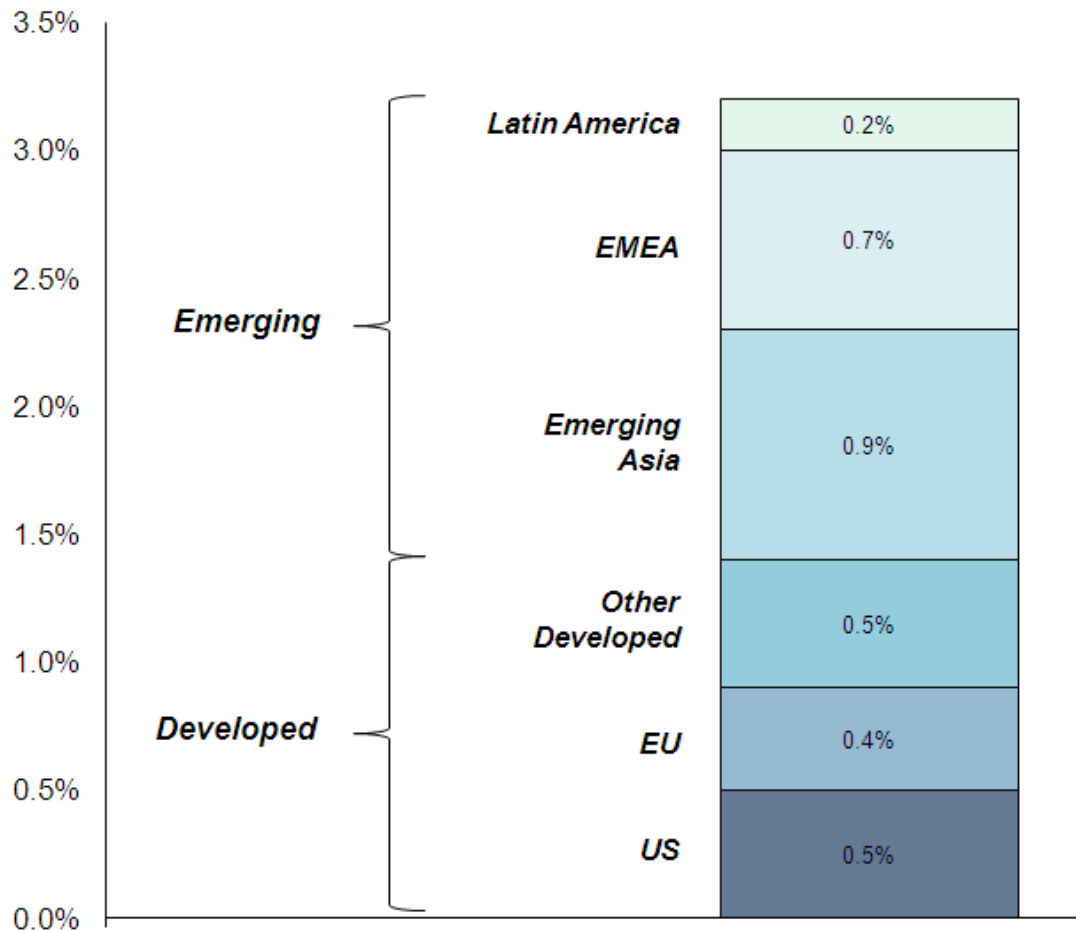
**Due to availability of data, long term growth forecast runs from 2012–2016.

Long Term Consensus Economics data as of 4/2011, Consensus Economics data as of 6/2011

Global Growth is Diversified

EM Contributing Increasing Share of Global Growth

2012e Real GDP Growth Contributors

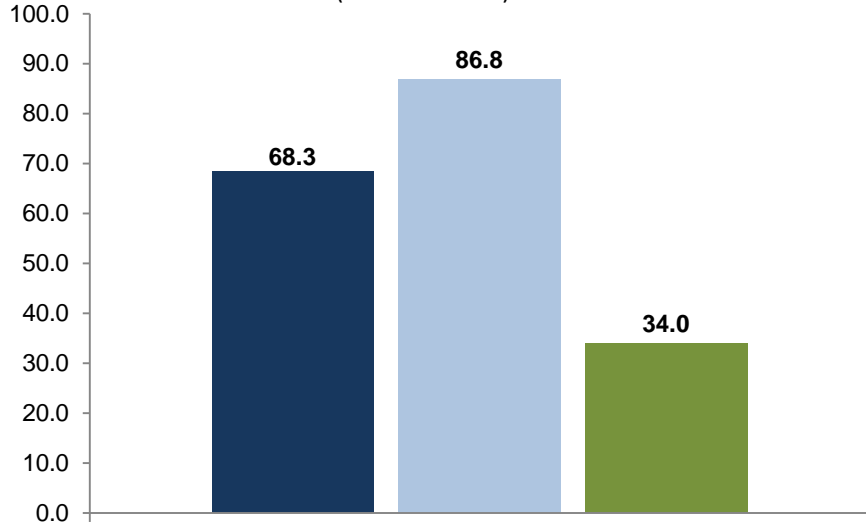


Source: International Monetary Fund (IMF), U.S. Department of Commerce, Alliance Bernstein.

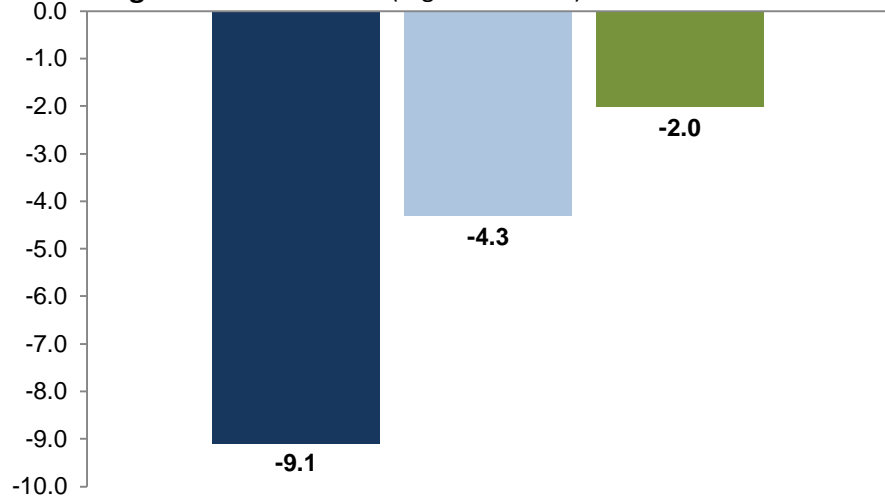
Emerging Markets Have Higher Sovereign Quality: A Tale of Divergence

- US
- Eurozone
- EM

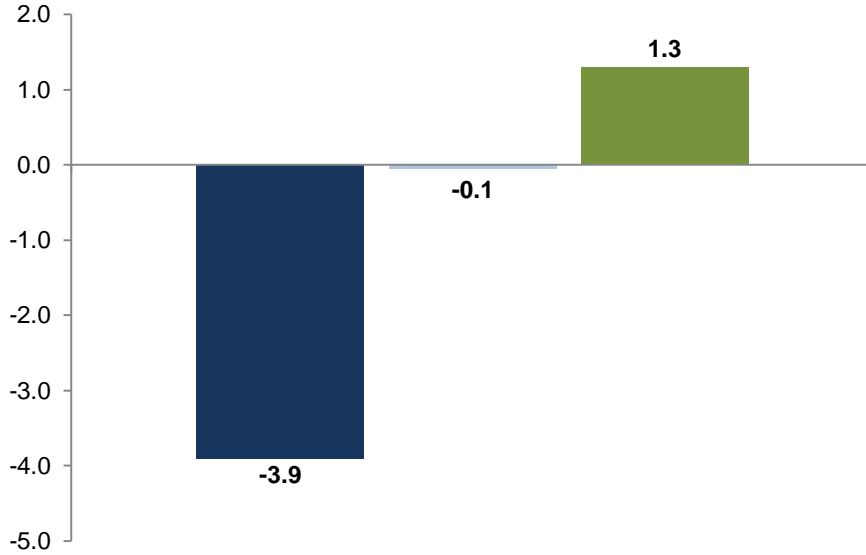
Public Debt to GDP (lower is better)



Budget Balance to GDP (Higher is Better)



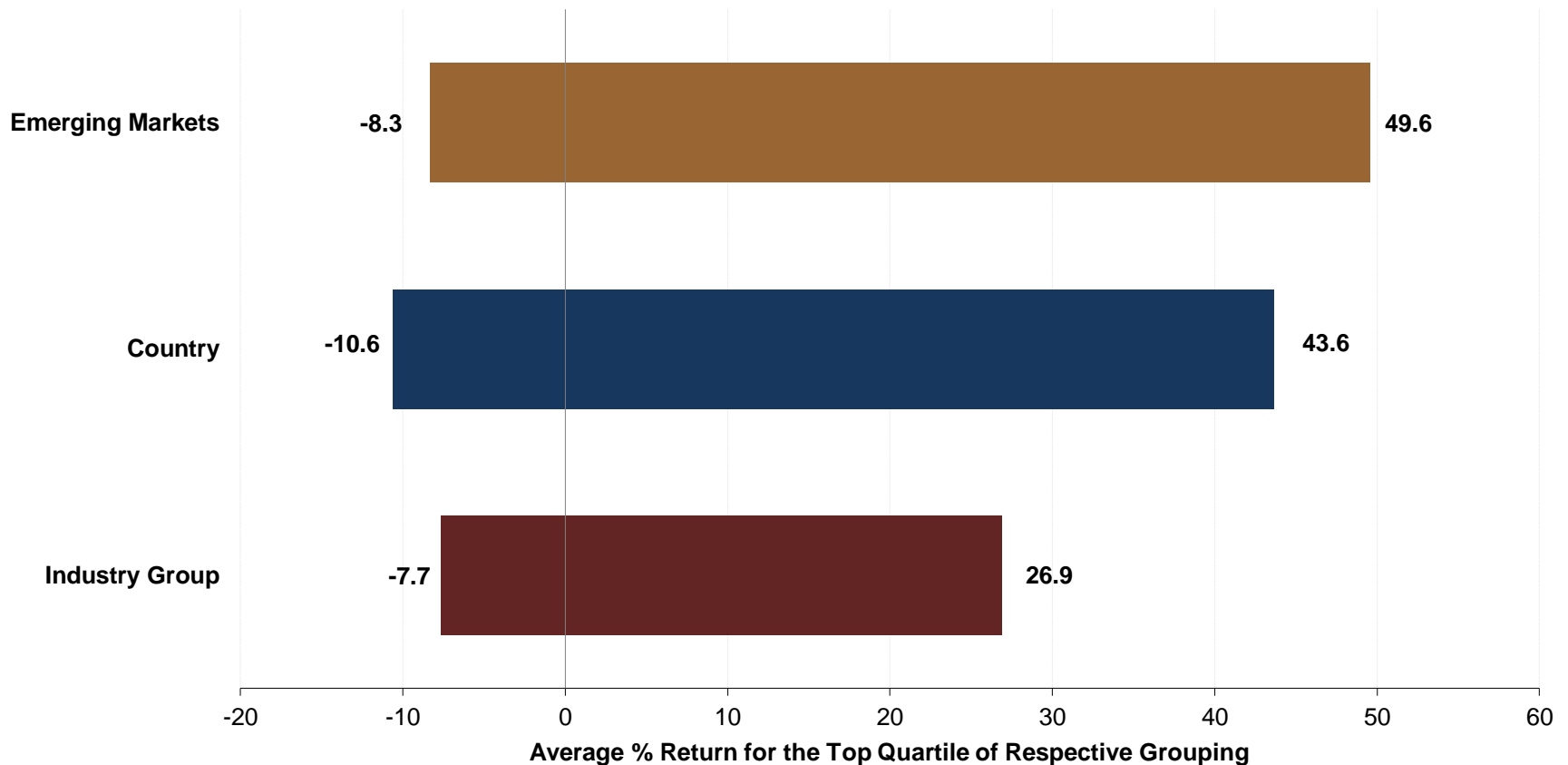
Current Account to GDP Ratio (Higher is Better)



Source: EcoWin, EIU and Federated Investors. Data as of 6/30/2011.

Emerging Markets Have More Upside Potential

Emerging Markets Have The Widest Dispersion of Average Annual Returns



Source: MSCI and Federated

Based on the paper "The Relative Importance of Country and Industry Factors in Emerging Markets" by Robert Bruner, Robert Conroy and Wei Li.

Data represents the average of the top and bottom quartiles for Industry Group and Country 12 month returns from December 31, 1995 to June 30, 2011. Due to Front End Risk Control, the investable universe is narrowed by portfolio management to 36 countries, from the original 44 constituents of the ACWI ex US. Past performance is no guarantee of future results. Index performance is for illustrative purposes only and is not representative of performance for any specific investment.



Leading and Losing Country Markets

	1997*	1998*	1999*	2000*	2001*	2002	2003	2004	2005	2006	2007	2008	2009	2010
	TOP 5 PERFORMERS %													
	Turkey 118.1	South Korea 141.1	Turkey 252.4	Israel 27.8	South Korea 48.7	Czech Republic 43.7	Turkey 125.3	Hungary 91.5	South Korea 57.0	China 82.9	Brazil 79.6	Japan (29.2)	Brazil 128.1	Chile 44.2
	Hungary 95.2	Finland 122.6	Finland 153.3	Switzerland 6.4	Mexico 18.5	Hungary 30.3	Brazil 114.4	Czech Republic 85.6	Brazil 56.4	India 51.0	Turkey 74.1	Israel (29.3)	India 102.8	Malaysia 37.0
	Mexico 53.9	Greece 78.1	Malaysia 114.6	Canada 5.6	Taiwan 10.5	South Africa 28.0	China 87.6	Austria 71.5	Turkey 56.1	Spain 49.4	India 73.1	Switzerland (30.5)	Turkey 97.5	South Africa 34.2
	Portugal 47.4	Belgium 68.7	South Korea 92.4	Denmark 3.7	New Zealand 9.5	New Zealand 24.2	Chile 83.3	Poland 61.1	Mexico 49.1	Portugal 47.4	China 66.2	Chile (35.8)	Norway 87.1	Sweden 33.8
	Switzerland 44.8	Italy 53.2	India 87.3	Czech Republic 1.6	Malaysia 4.6	Austria 16.5	India 78.3	Norway 53.3	Czech Republic 45.8	Ireland 46.8	Czech Republic 55.3	South Africa (37.9)	Chile 85.6	Denmark 30.7
	United States 34.1	United States 30.7	United States 22.4	United States (12.5)	United States (12.0)	United States (23.1)	United States 28.4	United States 10.1	United States 5.1	United States 14.7	United States 5.4	United States (37.6)	United States 26.3	United States 14.8
	BOTTOM 5 PERFORMERS %													
	Japan (23.5)	Malaysia (30.5)	Switzerland (6.6)	New Zealand (33.0)	Japan (29.3)	Sweden (30.5)	United Kingdom 32.1	Netherlands 12.2	Malaysia 2.3	United States 14.7	Austria 2.2	India (64.6)	Germany 25.2	Portugal (11.3)
	China (25.3)	Mexico (33.5)	Portugal (8.5)	Greece (41.6)	Greece (29.6)	Brazil (30.7)	Hungary 32.0	United States 10.1	Italy 1.9	South Korea 12.6	Sweden 0.6	Greece (66.0)	Greece 25.0	Italy (15.0)
	Singapore (40.5)	Brazil (39.6)	Austria (8.7)	Taiwan (44.9)	Israel (31.1)	Israel (31.3)	Netherlands 28.1	Taiwan 9.0	New Zealand 1.7	Japan 6.2	Belgium (2.7)	Belgium (66.5)	Ireland 12.3	Ireland (18.1)
	South Korea (66.7)	China (42.4)	Ireland (12.6)	Turkey (45.6)	Turkey (32.7)	Germany (33.2)	Malaysia 26.6	Finland 6.1	Portugal (1.9)	Israel (5.3)	Japan (4.2)	Austria (68.4)	Finland 11.1	Spain (22.0)
	Malaysia (68.1)	Turkey (52.5)	Belgium (13.7)	South Korea (49.6)	Finland (37.8)	Turkey (35.8)	Finland 19.4	China 1.9	Ireland (2.3)	Turkey (7.2)	Ireland (20.1)	Ireland (71.9)	Japan 6.3	Greece (44.9)
	MSCI ACWI %													
	15.0	22.0	26.8	-13.9	-15.9	-19.3	34.0	15.2	10.8	21.0	11.7	-42.2	34.6	12.7

Source: MSCI and Federated Investors.

*Due to Availability of net data, the years 1997 - 2001 represent the gross official index returns. 2002 to present figures represent the net official index returns.

Due to Front End Risk Control, the investable universe is narrowed by portfolio management to 36 countries, from the original 45 constituents of the ACWI. Performance shown is annual performance for each calendar year. Past performance is no guarantee of future results. Index performance is for illustrative purposes only and is not representative of performance for any specific investment. Data as of December 31, 2010.



Emerging Market Companies Continue to Grow

The Number of Global Leaders in Emerging Markets Continues to Grow

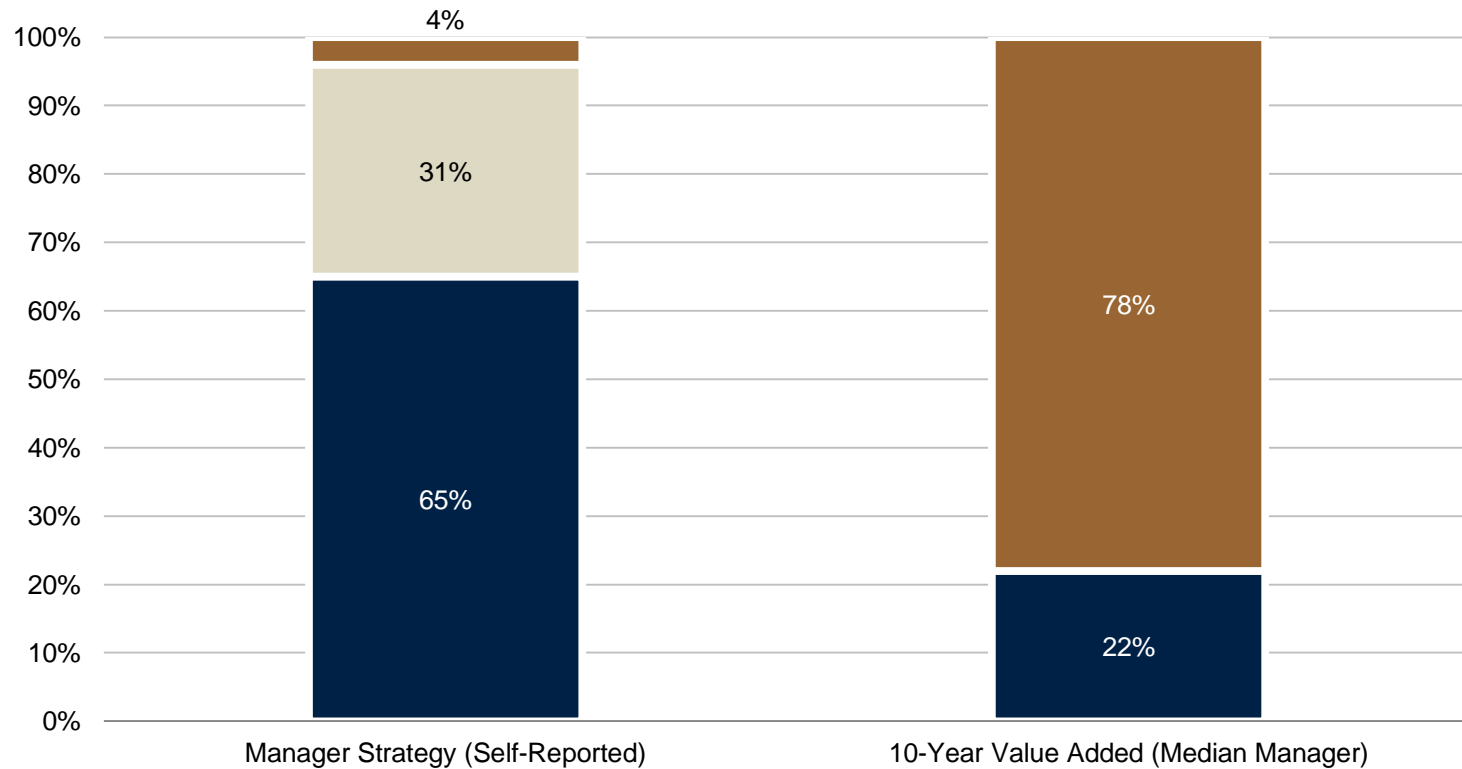
	12/31/2000			12/31/2005			12/31/2010		
	EM	MSCI EAFE	USA	EM	MSCI EAFE	USA	EM	MSCI EAFE	USA
> \$50 billion	0	41	47	1	34	50	9	40	46
\$25 - \$50 billion	2	44	42	5	51	53	16	67	58
\$5 - \$25 billion	35	258	151	72	339	334	160	374	365
< \$5 billion	682	663	96	710	752	135	617	488	122
Total	719	1006	336	788	1176	572	802	969	591

Source: Artisan, MSCI and Federated Investors.

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Country Allocation Is The Most Important Decision

...most international equity managers focus on stock selection, but country allocation adds the most value



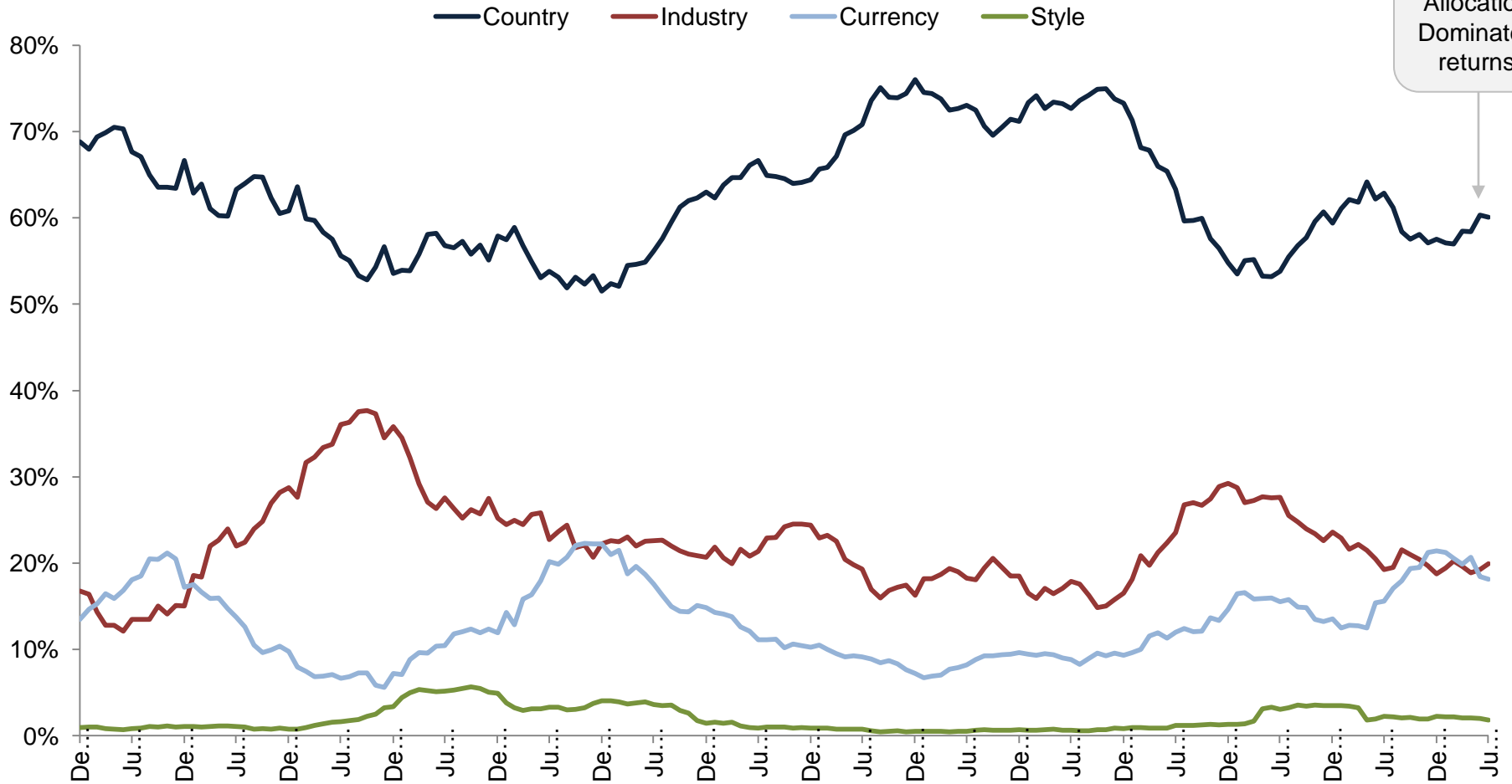
*Stock selection **PLUS** (Country, Industry, Region, ect.)

Source: InterSec Research, EAFE Plus Peer Group, Details as of June 2010

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Country Allocation Drives Returns in Global Markets

Trailing 12-month average for each component's share of Cross Sectional Volatility

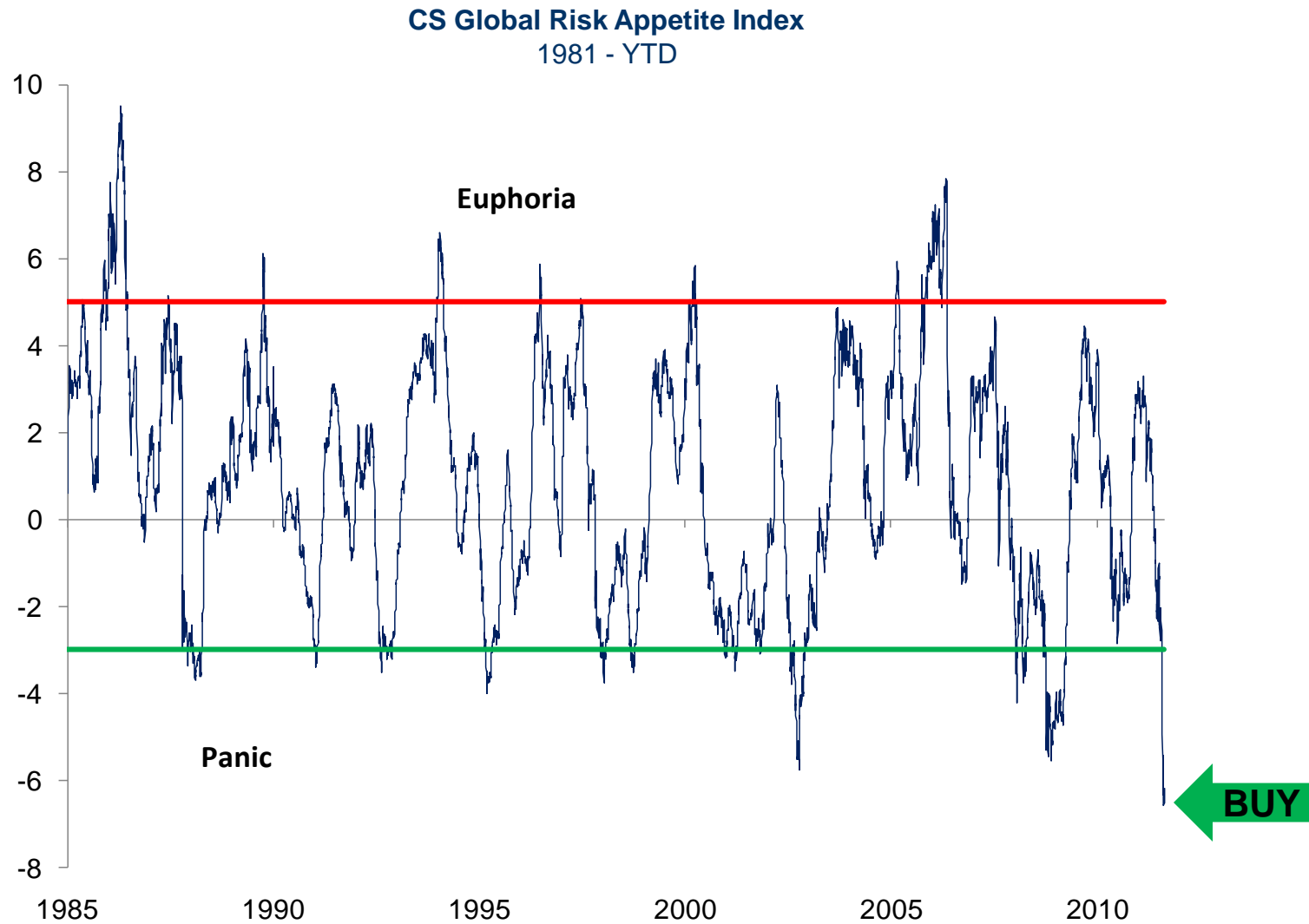


Source: Anton V. Puchkov, Dan Stefek, and Mark Davis, "Sources of Return in Global Investing," *Journal of Portfolio Management*, Winter 2005; MSCI Barra (Research Consulting Group); and Federated Investors.

Based on GEM2 LMonthly Factor Returns. Data December 1997 through June 2011

Market Outlook

Panic Presents Opportunities

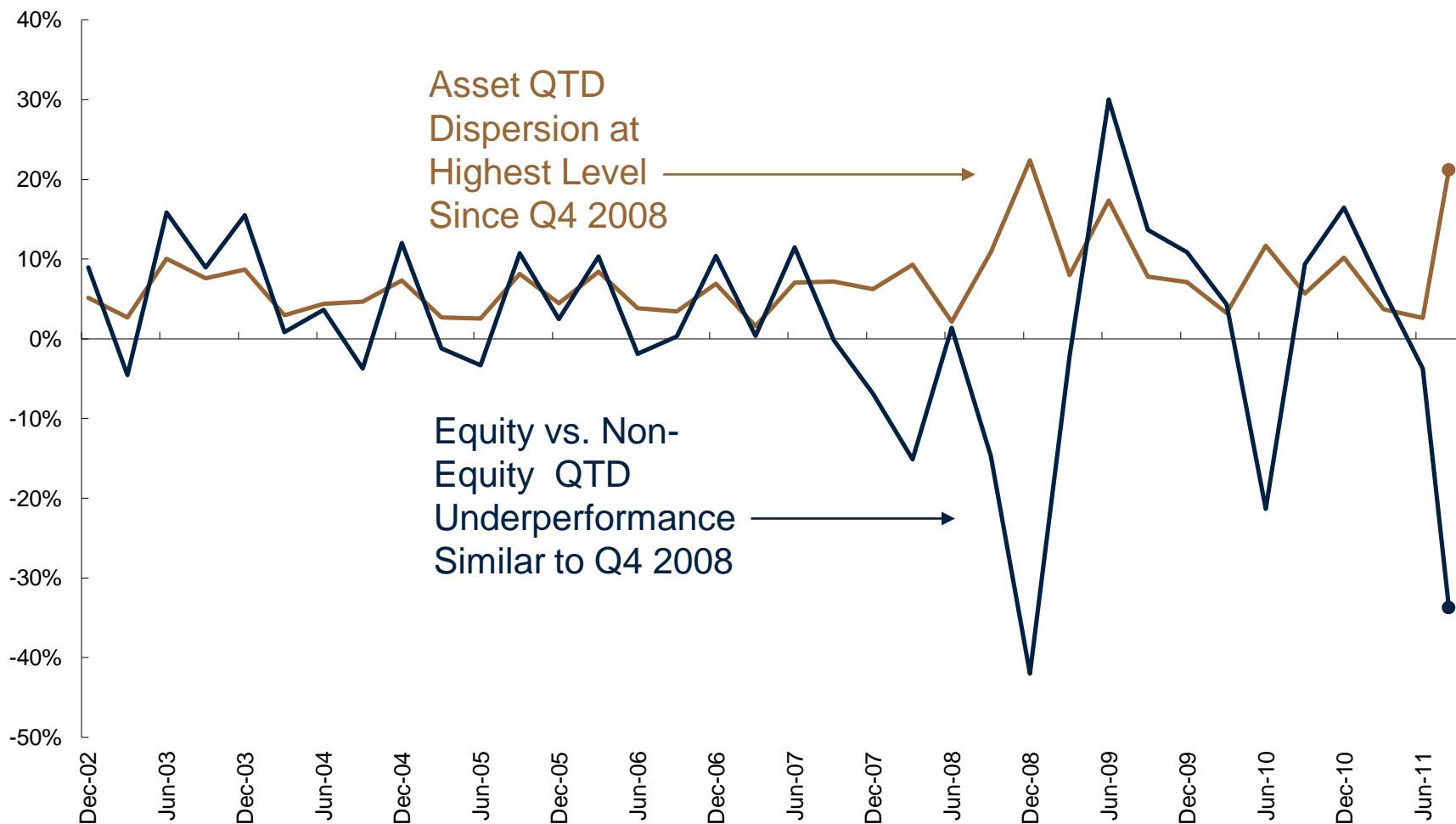


Source: Bloomberg, Credit Suisse and Federated Investors. Data as of August 24, 2011.

Dispersion Between Equity and Non-Equity Assets at Record Levels

QTD Equities underperformed non-Equity assets by 34%.

In Q4 2008 this outperformance reached a record level of 41%, only 7% wider than it is now



Source: JPMorgan. Data as of August 22, 2011.

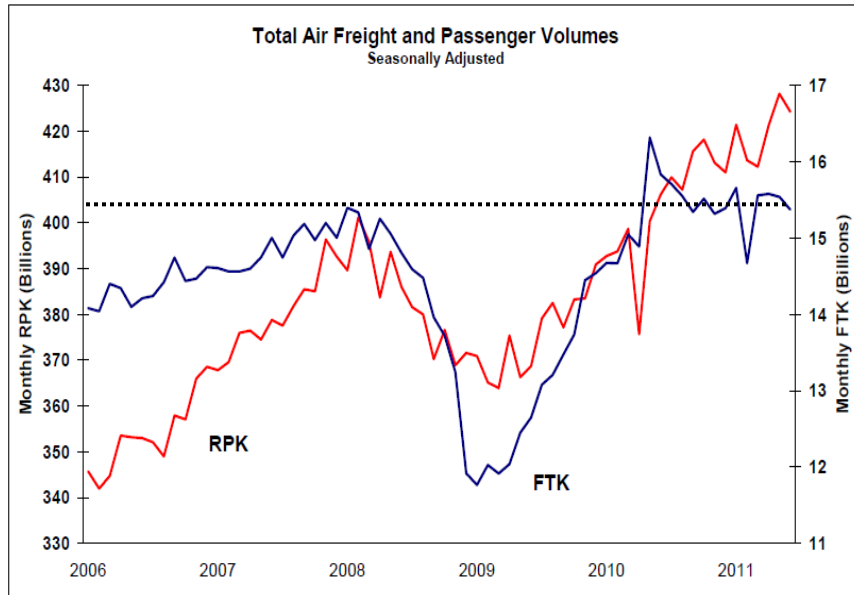
Equities consist of S&P 500, MSCI Emerging Market and Russell 2000. Non-Equities consist of 20Y and 7Y US Treasuries and Gold.

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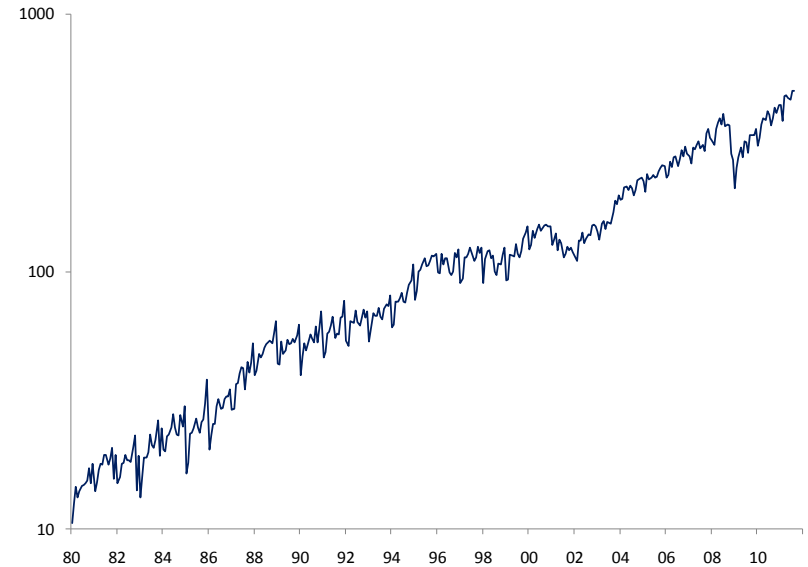
Indicators of Global Economic Activity Remain Favorable

Global Air Freight and Passenger Volumes

Revenue-Passenger-Kilometers (RPK, left scale) and Fright-Tonne-Kilometers (FTK, right scale) SA, 2006 – June 2011



Korean Exports



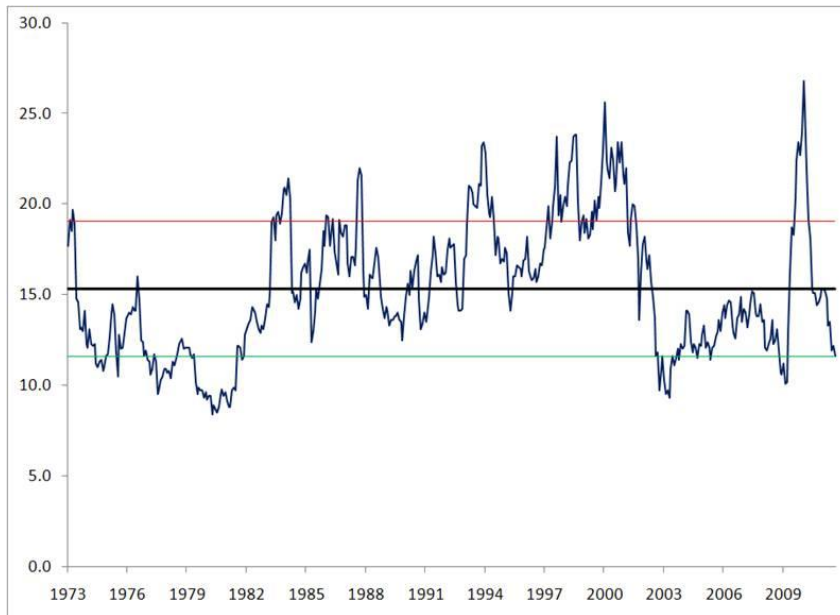
Source: IATA and Korean Ministry of Knowledge Economy. Data as of August 2011.

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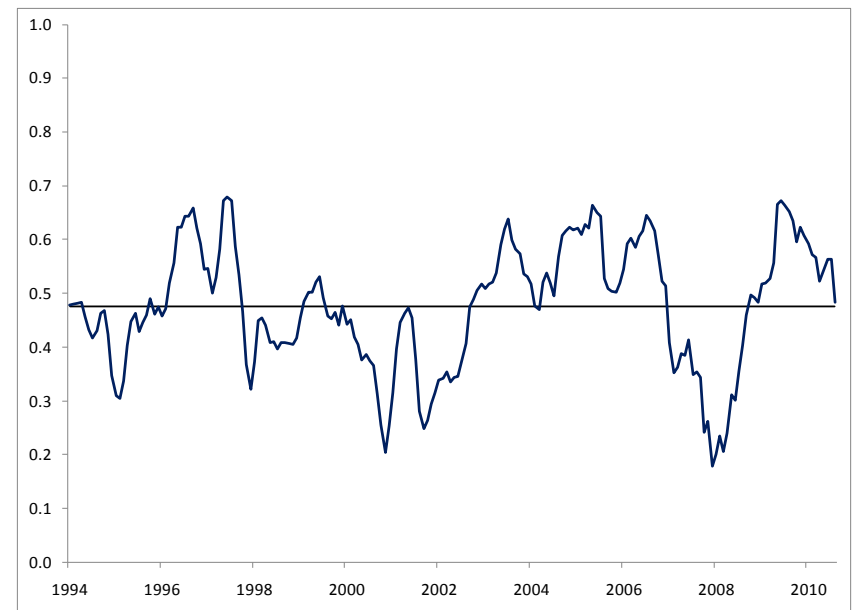
The Market is Already Pricing in a Very Negative Outcome

German equities are valued attractive as the market trades at the bottom 10th percentile vs. its long-term history
Analysts' future earnings estimates have declined, yet they are average vs. history. We believe this is an opportunity

P/E Ratio of German Equities,
based on reported earnings, 1973 – 2011 YTD



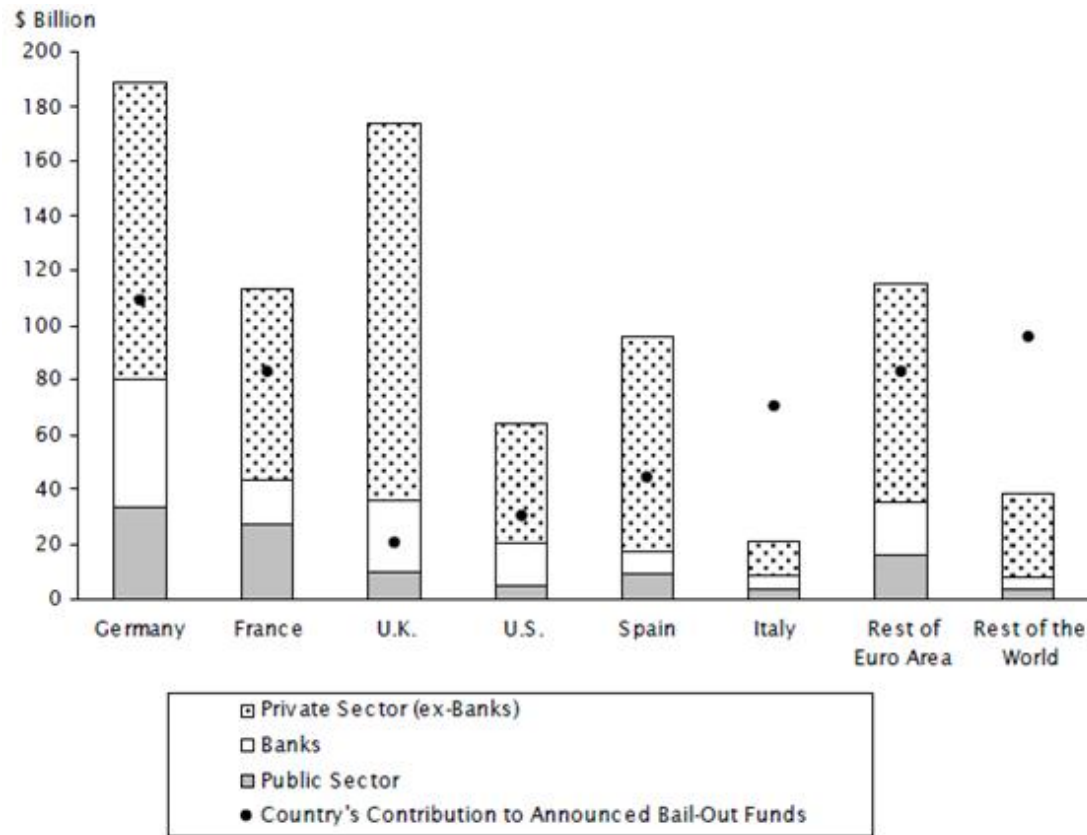
Analyst Earnings Revisions for German Equities,
1994 – 2011 YTD



Source: MSCI, FactSet, DataStream and Federated Investors. Data as of August 2011.

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Foreign Banks' Exposure to Greece, Ireland and Portugal



- Worsening growth prospects limit the scope for banks to rebuild capital
- Debt writedowns likely to accelerate
- Euro Bank CDS spreads are all at recent highs
- US banks have loan loss coverage 1.4x, but Euro zone much less fully reserved
- Euro area banks more dependent on wholesale funding
- Speed to address in Euro Zone is slow because of large chain of decision-making

Source: Empirical Research, Economist, BIS, ECB, European Commission and the IMF. Data as of April 2011.