

Investment Insight

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The Current State of International Investing: Seeking Opportunities Amidst a Worldwide Economic Slowdown



A conversation with:

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Highlights:

- The U.S. and Europe remain key trading partners for emerging markets and we have seen an increase in the flow of goods and services between emerging markets themselves. Intra-emerging market trade has increased during this downturn as these countries looked for different sources of growth because they could no longer rely on the U.S. and developed economies as much as they historically had.
- It is too early to tell whether rising commodity prices will stifle the economic recovery. The expectation is that inflation will remain subdued in the near to medium term, with risks to the upside coming in 2011. The potential for inflation does not just depend on commodity prices, but also the pace of the recovery, the decline in unemployment, and the ability of central banks to manage monetary policy.
- When we invest across countries, we are looking for diversification in order to create a more efficient portfolio. More efficiency to us, means a lower risk portfolio with potential for a higher return. Since their peak in late 2008 and early 2009, correlations have been declining as volatility levels have declined. Another reason, which I think is even more important, is that investors have started to distinguish among the fundamentals for different country markets.
- We spend 70% to 80% of our time working on country allocation and achieving the correct country weights. It is very important because our research shows that, since 1994, if you look at returns on an annual basis or a three or five-year basis, the actual countries matter the most in performance. Following a successful country allocation strategy can differentiate your performance more than following a company picking strategy.

The following discussion is moderated by Poul-Erik Olsen, CFA, Vice President & Senior Portfolio Manager of Rochdale Investment Management.

Q: The U.S. government has taken several fiscal and monetary actions in an attempt to combat the recession here in the United States. Can you take us through and discuss what actions have been taken by foreign governments to address the economic slowdown in their individual economies?

A: As you all recall, a few years ago there was the saying “don’t fight the Fed.” Now, what you are asking me about is the updated version of that saying, “don’t fight the Fed, the European Central Bank (ECB), the Bank of England (BOE), the Bank of Japan (BOJ), the International Monetary Fund (IMF), etc.”

The U.S. was aggressive in their response to the recession, but the global response to the crisis has been equally aggressive, if not more so. We have seen an unprecedented level of global fiscal stimulus with over \$2 trillion announced since the crisis began.

With the U.S. having the world’s largest economy, it was the largest single package at over \$900 billion. However, there have been large packages from other regions as well. China alone announced plans to spend over \$580 billion and Japan announced a package that was over \$261 billion. Major European countries also announced major stimulus spending plans, though they have been more conservative than those we have seen in the U.S. and Asia, with the E.U. providing \$259 billion in relief.

In addition to infrastructure spending, most foreign governments have been focusing their stimulus plans on the consumer. This is particularly true in Asia where countries are trying to reduce their dependency on exports. This has been successful in countries like Korea and China, where we are seeing a pick up, albeit moderate, in consumer spending.

Q: Now, the ECB has been more conservative in their approach. Will that have an impact on that region’s ability to recover with the same speed as the U.S. and Asia? Has this affected your investment decisions in that region?

A: The market’s view is that the Eurozone’s response has been somewhat disappointing compared to the Americas and Asia. They have taken action, but the ECB may have taken the longest to begin cutting rates, October 2008 to be exact. They have not been as aggressive but they did cut rates by 325 basis points to 1%. That is the lowest level since the launch of the Euro, but it does not compare favorably to other central banks that effectively took their rates down to zero. The U.S. Fed took their rate to zero, an extraordinary step taken in order to provide liquidity to help with financial crisis.

The fiscal stimulus packages announced in the Euro area also disappointed, accounting for almost 5% of 2009 and 2010 GDP. This compares to around 6% for the U.S. and 12% for China. You must note that the actions of the ECB and accompanying European governments are ultimately

governed by the need to meet the targets that were agreed upon at the creation of the Euro. Additionally, some European governments have noted that they have safety nets built into their systems, thus reducing the level of necessary crisis spending.

Despite the disappointing response, a lot of the European countries remain attractive for longer-term investors. These countries are still benefiting from ongoing integration, labor reform, cross-border transactions, etc.

One of our largest overweight positions is in the Norwegian economy. Factors such as a high level of public consumption and a strong country balance sheet are important in the country’s ability to support a large fiscal and monetary stimulus. Denmark looks attractive in terms of profitability and cash flows. We are also finding attractively valued shares in Austria, which opens the door to Eastern Europe for us.

Q: You mentioned Austria and the benefits from interacting with Eastern Europe. It was my impression that one of the casualties of this global financial crisis was Eastern Europe, which financed many of their expansions with heavy debt. I believe you even had civil unrest in Latvia. So, how far is Eastern Europe going in tackling this mess and are we going to see any default on national debts?

A: We have not talked about the process of our investing but we have a country-focused, top-down process which I’m sure we will address later. At times, we do think of Central and Eastern Europe altogether. However, there are some Baltic nations, including Latvia and Lithuania, which are expected to suffer the worst of the credit crunch because of their high debt levels. We think they could remain in a deep recession throughout 2010. Other countries such as the Czech Republic, Poland, and Hungary seem to be reliant on Western European countries such as Germany and France for assistance in pulling them out of their economic struggles.

Germany and France are already looking at leading indicators and manufacturing orders as they are beginning to pull out of their respective recessions. Their export reliant counterparts in Austria, Czech Republic, and Poland will fare better because the general economy is improving.

So, that’s why we look closely at individual countries as there is really a different picture depending on the particular country.

Q: Is the InterContinental Fund invested in any of the Eastern European countries we have been discussing?

A: Recently, we added weight back in to Austria and to Czech Republic. It is a small amount, but we think those countries will benefit from the recovery that is being felt in Western Europe. Despite a high unemployment rate, as we have seen here in the U.S., we are starting to see that plateau and we

are starting to see other indicators of improving economies. Altogether, the portfolio has allotted less than 5% to that whole region.

Q: To get back to talking about emerging markets in a broader sense, they seem to have fared better than the developed markets in the downturn we just went through. Can you discuss why that is and whether or not you believe that emerging markets still represent an attractive investment opportunity?

A: We have been talking about emerging markets as they relate to this portfolio since I joined as lead portfolio manager in 2004.

Despite the dramatic slowdown in growth because of the downturn, emerging markets have recovered somewhat rapidly because they did not experience the same housing and banking crises as the U.S. and European economies. When I refer to European economies and the housing and banking crises, I am referring to the United Kingdom, Ireland, and Spain as they were amongst the hardest hit. Emerging market banks have been able to make loans without worrying about capitalization and companies have been able to borrow to fund growth without worrying about leverage. Additionally, record amounts of stimulus spending appear to be fairly effective in these markets.

We are starting to see real signs of recovery in the consumer spending in Asia. The same applies for Brazil and a number of other economies we are monitoring. Actual retail sales and auto sales are picking up as well. Auto sales in China surpassed the monthly level of auto sales in the U.S. this past summer.

While the U.S. and Europe remain key emerging market trading partners, we have seen an increase in the flow of goods and services between emerging markets themselves. Intra-emerging market trade has increased during this downturn as these countries were all looking for different sources of growth because they could no longer rely on the U.S. and developed economies as much as they have historically.

The Organisation for Economic Co-operation and Development (OECD) recently said they expect markets like China, Brazil, and India to rebound strongly in 2010 while the U.S. and Europe may lag. Certainly, consensus forecasts reflect this: in 2010 China is expected to grow GDP by 9.3%, Brazil by 3.7%, and Korea by 3.5%. Meanwhile, the U.S. and the Eurozone are expected to grow by 2.3% and 0.6%, respectively. Long-term growth forecasts follow the same pattern.

On a very long-term basis, I still think that the most important demographic shift on our planet is the emerging middle class in China and other emerging markets. I first visited China in 1995 and scores of people were bicycling

to work. Now, they have more car sales than there are in the U.S. What is coming next will be a huge increase in the number of individuals entering the middle class. I foresee a five-time increase probably over the next two decades.

We believe that the combination of all of these factors means that emerging markets may not only outperform developed markets in the recovery, but also in the long-term and possibly become an even bigger component of global growth. Note that in recent years, developing economies have accounted for over 50% of incremental growth in global GDP and we would expect this trend to continue.

Q: That certainly is encouraging and exciting. Shifting to unemployment, we are all familiar with the current situation in the U.S. and we know that it is a major factor abroad as well. Can you comment on the outlook for employment abroad?

A: As I said earlier, it has been much more of a mixed bag in terms of unemployment releases. Although they have been rising in nearly every economy we monitor, unemployment is increasing at a decelerating pace in Germany and Spain as those countries appear to be stabilizing. In contrast, the United Kingdom and France are experiencing larger than expected rises. In fact, just this morning, the United Kingdom announced larger than expected unemployment figures, which means that there is a lot of pressure on both the Pound and numerous English companies today.

It is interesting to note that the actual unemployment rate in the U.S., 9.7%, has surpassed the 9.2% rate of the European Union, a highly unusual event. One of the reasons that Europe's unemployment rate has held up relatively well is the safety net they have in place. For example; in Germany, government programs essentially pay companies to keep their workers employed.

Despite the healthier performance of emerging market economies, unemployment has been a drag. In Asia, the heavy dependence on exports and the downturn in the sector has led to heavy job losses. We have seen some pockets of stabilization being driven by an increase in domestic activity and trade on the back of demand from China.

Q: We have also seen a dramatic increase in commodity prices. Can you take us through what caused this surge in prices and the impact on the economic recovery? Has the Fund been able to benefit from these rising commodity prices?

A: There have been several explanations offered for the surge in commodity prices: restocking, the build up of government reserves in China, and the weak dollar. However, there are questions about the 'real' levels of global demand. Clearly, there has been some recovery in demand from China for many commodities and this accounts for most, if not all, of the incremental growth in metals. Spending on

infrastructure, auto production, and real estate has led to record levels of steel production. Growth in China and a consumption recovery in OECD countries as well as some supply constraints could lend some support to prices.

It is too early to tell whether rising commodity prices will stifle the economic recovery. The expectation is that inflation will remain subdued in the near to medium term, with risks to the upside coming in 2011. The potential for inflation does not just depend on commodity prices, but also the pace of the recovery, the decline in unemployment, and the ability of central banks to manage monetary policy.

The Fund has been overweight energy and materials stock, which accounts for 22% of the portfolio. The majority of our exposure to those sectors has come primarily from stocks in Norway, Brazil, China, and Australia. Some commodity oriented names include Norsk Hydro in Norway, Petrobras in Brazil, CNOOC in China, and BHP Billiton in Australia.

Q: Shifting gears, at the G20 London Summit in April, there was a commitment by the International Monetary Fund (IMF) of \$1.1 trillion. I would think this commitment would primarily target emerging markets and play favorably into your investment decisions and your orientation with emerging markets. Is that correct?

A: The goal of the funding was to support growth in emerging markets. This is one of several factors that I have already discussed which reinforces our reason for being bullish on emerging markets. The G20 decision strengthened our view on emerging markets and will help improve each individual emerging market country's balance sheet. You need to have a strong country balance sheet in order to have a successful economy.

We have been monitoring the upcoming G20 meeting in Pittsburgh. We believe one of the topics that may come up is strengthening the influence of G20, or emerging market countries in the World Bank and in the IMF.

All of this is in line with our view that the emerging economies will shape up to be the stronger growing economies and better investment opportunities. Obviously, the risks associated with that analysis must be considered and we must consider how to manage said risk when investing in those economies.

Q: Investors often try to lump emerging markets in to groups. One of the best-known groups is the BRICs (Brazil, Russian, India, and China). Is that an efficient way to look at emerging markets?

A: We do not believe all emerging markets are created equal. We actually think terms like BRICs are more for marketing purposes. It is important to note that emerging markets are not a homogeneous group of countries, rather a heterogeneous group as they are all different. We try to avoid lumping countries together as it can be misleading

when you consider that the economies may be in different stages of their development cycles.

We analyze the risk associated with each economy using market factors, political factors, regulatory environment factors, and trading risks, amongst others. As a framework, we rank the countries based on our own risk score, classifying them as low risk, medium risk, high risk, or excessive risk. Countries that are excessively risky are avoided altogether.

Russia is an example of a country that is in our benchmark but due to various risk factors, we consider it excessively risky and therefore do not invest. South Korea is only a medium-risk country and is an appropriate risk level for the investors of the InterContinental Fund.

Q: In technical terms, South Korea and Taiwan are emerging markets, right?

A: According to MSCI, which is one of the premiere benchmark providers, they're considered emerging markets. However, according to FTSE, another premiere benchmark provider which has about \$3 trillion of assets benchmarked to it, South Korea was upgraded from emerging to developed just this week. This change was actually announced a year ago but was made effective this week. According to the World Bank and the Economic Intelligence Unit (EIU), it should be labeled as a developed market. Our research also supports this label.

It has a broad and deep universe of companies to invest in. It has a fully functioning central bank. It participated in fiscal and monetary stimulus and a free-flowing currency. So for all of the reasons that fit - the regulatory, political, and trading risks - it should be, in our opinion, considered a developed market although our benchmark provider considers it an emerging market.

Q: Could you give us a quick word on India? I don't believe the InterContinental Fund has ever owned India, correct?

A: The fund has not owned India in the five years that I've been managing the portfolio.

We run a country asset allocation model which helps to choose the weights and set our country allocation. Our research shows that the country allocation is the most important investment decision in international investing.

Our model ranks countries based on multiple fundamental factors. We review the rankings all the time and currently, Brazil is number one but India is ranked much lower, perhaps in the 30 to 40 range. The types of things we are looking at when we are ranking countries include valuation indicators just like you would use to analyze a stock. We also consider growth characteristics and we are analyzing economic indicators. Essentially, those are the three keys.

India has consistently ranked poorly because it is always

trading very expensively. Its price-to-earnings ratios are expensive and enterprise valuations to EBITDA ratios are expensive. In other words, the valuation indicators we monitor all suggest that the Indian stock market is more expensive relative to other country economies. Contrast that with its growth, there are many companies expected to have strong earnings forecasts, profit growth, and expected GDP growth. So, there is some potential on the horizon.

India typically ranks poorly in terms of economic indicators. One indicator that is poorly ranked right now is their sovereign credit score. This means that although it is a surplus country, it's not in a deficit like the U.S. and it has high amounts of public debt to GDP and to maintain such a level is a drain on its resources.

So we see an expensive valuation and a mix of poor ratings in economic indicators. Whether it is growing or not changes in time. With all of that, we are seeing other more attractive countries in terms of our multiple fundamental model characteristics and this is why we have not been invested in India. That is not to say we will never invest there as change is constant, especially in our industry, and we are always looking at ways to re-evaluate our model.

We're currently on version 4.7 of our country ranking model, and in 2004 we were at version 2.5. We consistently make very small improvements, or occasionally large improvements, to advance the way we think about country asset allocation and that is something that we will look at going forward.

Again, like I said, every one of the value ratings today for India are poor and we don't want to overpay for something even if it is showing strong growth potential.

Q: That is very helpful. One more question on the BRIC markets. Would you recommend buying a fund specializing in those four markets or other emerging market-specific funds?

A: I get that question quite a bit. I come back to the benefit of having a professional money manager who knows how to balance your developed exposure and your emerging market exposure.

Presently, we do have a significant weight in emerging markets. We are at 46%, which is the highest we have been in a year versus our benchmark at 21%. However, our weight can change as we had it just at 24% about seven months ago. As professionals, we are trying to balance the appropriate level of risk of the portfolio while acknowledging most of our investors are risk averse.

Not all of the emerging markets are created equal as some can be more risky than others. An exchange-traded fund (ETF) can provide broad market exposure. However, to become involved with a single country ETF and not knowing when to

get in or out of that position could be very challenging.

Therefore, we have a philosophy to be a core fund that balances between developed and emerging markets. We also balance between growth, value, and economic indicators. We also look at quality indicators and technical indicators.

Q: You mentioned a 46% weight in emerging markets and the benchmark is 21%. That sounds like a meaningful allocation to emerging markets. A meaningful chunk of that in is South Korea and Taiwan, as we discussed.

A: In fact, South Korea and Taiwan are approximately 10% and 4%, respectively. If you excluded those, our weight in emerging markets drops down to 32%.

Our top ranked country right now is Brazil, which remains classified as an emerging market, and I would classify it as a high risk but not excessively risky. Our model is suggesting we should have as high as 20% in Brazil. However, in considering risk factors, we dial that down to a 10% position. There has been especially strong retail sales and domestic demand in Brazil that has remained a constant throughout this crisis period. The valuations, even with the especially strong domestic situation, have been very attractive. Brazilian corporate earnings growth is strong, corporations have lower debt, and at the end of the day, this is a crisis of debt.

If you take out another 10% from Brazil where our models are recommending allocating 20% exposure, that brings us down to about 20% in other developing economies. We spread this 20% across another eight or so emerging markets with strong fundamentals such as South Africa, Czech Republic, Turkey, even Chile, in Latin America, which we are finding is another good economy.

So we diversify our exposure between several of the emerging market economies.

Q: Let's talk a bit about correlations and volatility. During the past 12 to 18 months, we saw the volatility in global markets at extreme levels. Correlations between the world markets were well above average. Can you provide us with an update on the correlation between the U.S. and overseas markets? Are they still narrowing, thereby reducing the benefits of diversifying abroad?

A: When we invest across countries, we're looking for diversification so that we have a more efficient portfolio. More efficiency to us means a lower risk portfolio with potential for a higher return. Since their peak in late 2008 and early 2009, correlations have been coming down. One reason they have been on the decline is because volatility levels have also decreased. Another reason, which I think is even more important, is that investors have started to distinguish among the fundamentals for different country markets.

In looking at the different country markets, one realizes that they are not all positive or all negative. During last September and October, more than 90% of countries declined by more than 45%. Essentially, no one cared if a given economy was strong, weak, or something in between. Everything was sold.

This year, investors are differentiating between the markets. We are seeing that, year-to-date though September 11, 2009, Brazil is up 88% and Japan is only up 12% and that is largely due to some of the demographic shifts going on in the world right now. As an FYI, the U.S. returned 17.6% in that same period.

I think correlations are still higher than the historical averages but the research suggests that in the long run, they will come down. Having an allocation to international markets will still enhance your long-term returns because you will have other countries that are less correlated with the U.S., as we've seen basically since March. The key to taking advantage of the lower correlation and diversification is looking for countries that have lower correlations to invest in.

The U.K. has a correlation of 0.84% to the U.S. Taiwan, China, and India have correlations to the U.S. of less than 0.6%. When I say 0.84%, it means 84% of the time, the U.K. and the U.S. move together, whereas less than 60% China, less than 60% of Taiwan, and less than 60% India move together with the U.S..

There are even developed markets like Japan, Norway, and Austria with relatively low correlations (less than 40%). This is part of the reason that we have an active strategy of searching out smaller developed markets, as well as emerging markets, so that we can provide the benefit of diversification.

Q: To clarify, these correlation numbers you gave us represent the current level of correlation between the markets. Those numbers were meaningfully higher in the period where we declined from September of last year through mid-March this year.

A: That's right. The correlations to the U.S. went up to over 90% for almost every country because everything plummeted together.

Q: So we went through a period where the international stock markets declined more than the U.S. Now, we have gone through a period where they have rebounded stronger than the U.S. so this is a very broad question. With international markets still a good bet for investors, should investors be over-allocating to international markets at this point?

A: We have an asset allocation committee that has been steadily increasing their exposure to international markets as risk aversion has decreased. The committee is currently recommending an 18% weight in foreign stocks. That's 18% of your entire portfolio, both stocks and bonds.

I understand that, as advisors, you need to come up with a correct allocation depending on your client's risk tolerance. But at the end of the day, when you're buying a stock or a country allocation, you're buying future cash flows and future earnings. The stronger growth for cash flows and earnings is coming outside of the U.S. and, therefore, for a long-term investor, I think it's actually critical for you to have weight in international companies.

Q: In general, U.S. investors tend to be permanently under-invested in international markets. Would you say that's a fair statement?

A: It's a fair statement. I think the perception is that international markets are more risky and volatile. When you combine multiple markets with U.S. domestic equities and bonds in a portfolio, you are actually coming up with a lower overall risk portfolio with a potential for higher level of return because you're getting paid to take on that extra risk. You are getting a higher return and you are reducing that risk with the other investments in your portfolio.

Just to remind you, over the last ten years through the most recent month-end, the world excluding the U.S. has averaged 4% total return per year and the U.S. has been slightly negative over the last ten years at roughly -0.8%. We actually expect that trend to continue for the long haul. You are going to see some of this coming out at the G20 meeting when China and some other countries call for larger contributions to the discussions about world development coming from emerging economies.

Those countries are getting a larger say and the growth coming from those markets indicates that investors investing in those economies may get stronger returns in the long-run.

Q: Can you address China? The lending boom earlier in the year greatly benefited their economy. China's increasing vehicle sales may reach 12 million, surpassing the U.S. as the world's number one market. Industrial production, manufacturing, and retail sales all expanded in August.

A: We have a big position in Chinese companies in the portfolio. Although China has had strong price appreciation recently, our country ranking is still showing China amongst our top three recommendations as the valuations are still reasonable. I am not saying that China is cheap currently, but it is still appealing based on valuations, similar to Brazil.

That being said, China is more of a neutral-level valuation. Its cash flows are reasonable and PE ratios are reasonable. At the same time, the consensus view of China's earnings growth over the next 12 months is 24% growth in earnings per share across all of the corporations that are listed in the MSCI China. 24% compares very favorably even with the other emerging market economies. The "median" country is expecting a growth in earnings per share of 10%, exemplifying the strength of the expected recovery.

Chinese economic indicators are also quite favorable. In 2008, China accumulated \$411 billion in additional reserves. If you added up 74 of the smallest economies in the world, China's reserves are greater than those 74 economies combined. This clearly gives them a lot of resources and room to maneuver to make the correct government policy responses necessary to continue promoting domestic consumption and recovery. Although China currently relies heavily on exports, they have all the tools and capabilities available to them to reduce their reliance on those exports.

Q: In talking about the specifics of the allocation to China, how much is allocated to Hong Kong? Are those separable markets, meaning can you buy the same companies in Hong Kong and get the same exposure?

A: There are different ways to invest in China and our main investment vehicle is the Chinese H-shares. "H" means those shares that are listed in Hong Kong but are primarily China based corporations. We use MSCI China and MSCI Hong Kong as benchmarks. For China, we have a 9% approximate weight while Hong Kong is another 5%. The companies that we classify as Hong Kong are primarily Hong Kong based corporations. Of course, Hong Kong is now part of China so you could look at those as the same or separate, but there are still separate government operations in Hong Kong. Some people also view Taiwan as a piece of China. The Chinese government thinks that they have sovereignty over Taiwan. We view those as two separate economies.

We allocate 3% of the portfolio to Taiwanese companies. Altogether, we're almost at a 20% weight in the Asian region. Please note that this does not include Japan or Korea.

Q: One item we have not discussed is the InterContinental investment approach. Could you take us through that?

A: We spend 70% to 80% of our time working on country allocation and achieving the correct country weights. It is very important because our research shows that, since 1994, if you look at returns on an annual basis or a three or five-year basis, the actual countries that you are invested in matter the most. Following a successful country allocation strategy can differentiate your performance more than following a company picking strategy.

We spend the majority of our time garnering the best information and insights different from our peers in terms of country allocation. Beyond that, we look in each country to buy the blue chip, nationally recognized companies that have strong earnings growth, favorable valuations, and good quality characteristics including profitability and cash flows. We have a methodology within each country to buy shares that have good characteristics.

Because currencies have been so volatile, we have spent an increasing amount of time analyzing currencies. In fact, over the last year, this has been a very challenging area because

of the level of volatility between currencies occurring in the international markets.

So we combine the country, stock, and currency factors in our portfolio and we use risk analysis tools to ensure that we are taking on the risks that we want to be taking on. Today, we are overweight China and we want to have that risk. We do not take on risks that are embedded in the portfolio without understanding what those risks are.

Q: Did the events of the past 12 – 18 months cause you to reevaluate this approach?

A: Well, we have reevaluated in that we are allocating a bit more time to currency research. We also spent a lot of time making sure we are analyzing quality characteristics. High quality and low debt levels combined with strong country balance sheets matter now more than ever. We had to make sure that that was an increasing part of our process, but also that we had quality indicators to monitor at the company level.

It is a constantly evolving process to invest internationally. It is not something that can be static because the market and the environment are constantly changing. Our approach is generally and broadly the same. It is a country, top-down approach and then a stock picking within a country approach. We are always looking at ways to refine and improve so that we could give the best returns to our investors.

Q: There is a lot of talk about the need for an alternative to the dollar as the global reserve currency. What are the implications of that and wouldn't it make the argument for international investments even stronger?

A: I think there is going to be a lot of currency discussion in the background at the upcoming G20 meeting. The U.S. dollar is the world's reserve currency and it's been that way since the 1970s. There are some countries who want that to change, particularly China and emerging countries.

We have done a lot of research on this and we think that in the very long-term, the dollar will continue to depreciate as newer alternatives are discussed. One potential alternative is the Euro. It's been in existence for ten years and certainly has enough volume and trading. Another alternative is an IMF synthetic world currency. I cannot say if that is a real possibility or not. China's currency may become a credible alternative, but I think that only time will tell.

In terms of international investing, obviously, that is a favorable reason to invest in international companies, as we expect the dollar to depreciate over the long run and assuming you want to buy anything manufactured overseas. You need some hedge against the depreciation of the dollar and owning international assets is a good hedge.

Q: Audrey, we have covered a lot of ground today. Is there anything you would like to add?

A: We have a unique process to successfully review and invest in international markets. Our top-down approach is what distinguishes our portfolio. It was a very challenging year but, over the long run, the portfolio has done quite

well. The five year annualized return of the Fund is 9% per year. For ten years, it is 2.7% per year which beats the S&P benchmark. That being said, we have done our best but we are always looking to improve our process and make sure that our decisions represented in the portfolio are the best decisions for long-term risk adverse investors.

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