

# Federated

WORLD-CLASS INVESTMENT MANAGER<sup>®</sup>



## FEDERATED STRATEGIC VALUE FUND

Established 2005

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**A Portfolio of Federated Equity Funds**

### **PRESIDENT'S MESSAGE AND ANNUAL SHAREHOLDER REPORT**

October 31, 2009

**Class A Shares**

**Class C Shares**

**Not FDIC Insured ■ May Lose Value ■ No Bank Guarantee**



**J. Christopher  
Donahue**

*President*

Federated Strategic  
Value Fund

## PRESIDENT'S MESSAGE

Dear Valued Shareholder:

Enclosed is your Annual Shareholder Report for Federated Strategic Value Fund. The report covers the period from November 1, 2008 through October 31, 2009. Please review the complete listing of the fund's holdings, financial statements, Management's Discussion of Fund Performance and other information in the report, as well as the commentary in this letter.

Federated Strategic Value Fund offers investors a total return equity strategy emphasizing a high-dividend yield<sup>1</sup> and an increasing stream of income as well as the potential for less volatility than the Standard & Poor's 500.<sup>2</sup> Your fund is managed by Walter C. Bean, CFA, senior vice president, and Daniel Peris, Ph.D., CFA, vice president, both of Federated Equity Management Company of Pennsylvania and who are supported by Federated's experienced team of equity analysts and traders.

- 1 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.*
- 2 The Standard & Poor's 500 Index is an unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Investments cannot be made directly in an index.*

**Performance data 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. Mutual fund performance changes over time and current performance may be lower or higher than what is stated. For current to the most recent month-end performance and after-tax returns, visit [FederatedInvestors.com](http://FederatedInvestors.com) or call 1-800-341-7400.**

The first four months of the reporting period were characterized by severe market and economic weakness, followed by a surprisingly aggressive equity rally that continued through mid-October. It was a surge that largely favored small cap, higher risk stocks and those that provided little to no dividend opportunity. Against this backdrop, Class A Shares of Federated Strategic Value Fund gained 0.31% at net asset value, faring substantially better than its benchmark, the Dow Jones Select Dividend Index,<sup>3</sup> which lost 8.35%. Total return performance for the fund follows:

<b>Share Class</b>	<b>Maximum Sales Charge</b>	<b>Contingent Deferred Sales Charge</b>	<b>Total Return at Offering Price</b>	<b>Total Return at Net Asset Value</b>
Class A	5.50%	0.00%	-5.13%	0.31%
Class C	None	1.00%	-1.65%	-0.69%

The fund's managers note that the market's recent preferences were not surprising, but were consistent with what has occurred coming out of previous recessions in 1980, 1982, 1990 and 2002. In each case high quality, high yield and lower risk stocks – those emphasized by the fund – were outperformed by their lower yield, higher risk counterparts. They point out that in each of the two years following these rallies, investors typically shifted their preference back to high-yield and high-quality stocks. Although past performance does not guarantee future results, the fund's managers believe that their continued emphasis on identifying stocks that meet the fund's objectives to deliver high current income, growth in dividend income and lower downside risk will continue to serve investors well. In addition, they believe that given the uncertainties associated with a post-stimulus environment, it may be especially beneficial for investors to own assets that offer the potential for increasing income to maintain purchasing power in the face of a possible re-ignition of inflation.

3 *The Dow Jones Select Dividend Index is a dividend-weighted index intended to represent the 100 stocks in the Dow Jones U.S. Total Market Index that have the highest indicated annual dividend yield. Investments cannot be made directly in an index.*

Finally, as investor sentiment has been distracted by what the fund's managers view as a low-quality rally, they are positioning the portfolio to pursue future success by taking advantage of opportunities to purchase high-quality stocks that are offering historically high dividend yields at compelling prices.

Thank you for investing with Federated. We hope you have found this discussion useful and look forward to keeping you informed. Please feel free to visit our Web site, [FederatedInvestors.com](http://FederatedInvestors.com), for regular updates and commentary on economic and market developments from our investment strategists.

Sincerely,

A handwritten signature in black ink, reading "J. Christopher Donahue". The signature is written in a cursive, flowing style.

J. Christopher Donahue  
President  
December 15, 2009



WORLD-CLASS INVESTMENT MANAGER<sup>®</sup>

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# FEDERATED STRATEGIC VALUE FUND

Established 2005

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**A Portfolio of Federated Equity Funds**

## **ANNUAL SHAREHOLDER REPORT**

October 31, 2009

**Class A Shares**

**Class C Shares**

**FINANCIAL HIGHLIGHTS**

**SHAREHOLDER EXPENSE EXAMPLE**

**MANAGEMENT'S DISCUSSION OF FUND PERFORMANCE**

**PORTFOLIO OF INVESTMENTS SUMMARY TABLE**

**PORTFOLIO OF INVESTMENTS**

**STATEMENT OF ASSETS AND LIABILITIES**

**STATEMENT OF OPERATIONS**

**STATEMENT OF CHANGES IN NET ASSETS**

**NOTES TO FINANCIAL STATEMENTS**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**BOARD OF TRUSTEES AND TRUST OFFICERS**

**EVALUATION AND APPROVAL OF ADVISORY CONTRACT**

**VOTING PROXIES ON FUND PORTFOLIO SECURITIES**

**QUARTERLY PORTFOLIO SCHEDULE**

**Not FDIC Insured ■ May Lose Value ■ No Bank Guarantee**

# FINANCIAL HIGHLIGHTS – CLASS A SHARES

(For a Share Outstanding Throughout Each Period)

	Year Ended October 31,				Period Ended 10/31/2005 <sup>1</sup>
	2009	2008	2007	2006	
<b>Net Asset Value, Beginning of Period</b>	<b>\$4.01</b>	<b>\$6.36</b>	<b>\$6.27</b>	<b>\$5.21</b>	<b>\$5.00</b>
<b>Income From Investment Operations:</b>					
Net investment income	0.15	0.27	0.27	0.25 <sup>2</sup>	0.12 <sup>2</sup>
Net realized and unrealized gain (loss) on investments and foreign currency transactions	(0.15)	(2.05)	0.16	1.05	0.19
<b>TOTAL FROM INVESTMENT OPERATIONS</b>	<b>—</b>	<b>(1.78)</b>	<b>0.43</b>	<b>1.30</b>	<b>0.31</b>
<b>Less Distributions:</b>					
Distributions from net investment income	(0.16)	(0.28)	(0.25)	(0.22)	(0.10)
Distribution from net realized gain on investments and foreign currency transactions	—	(0.29)	(0.09)	(0.02)	—
<b>TOTAL DISTRIBUTIONS</b>	<b>(0.16)</b>	<b>(0.57)</b>	<b>(0.34)</b>	<b>(0.24)</b>	<b>(0.10)</b>
<b>Net Asset Value, End of Period</b>	<b>\$3.85</b>	<b>\$4.01</b>	<b>\$6.36</b>	<b>\$6.27</b>	<b>\$5.21</b>
<b>Total Return<sup>3</sup></b>	<b>0.31%</b>	<b>(30.13)%</b>	<b>6.96%</b>	<b>25.52%</b>	<b>6.12%</b>
<b>Ratios to Average Net Assets:</b>					
Net expenses	1.04% <sup>4</sup>	1.00% <sup>4</sup>	1.00% <sup>4</sup>	0.90% <sup>4</sup>	0.47% <sup>5</sup>
Net investment income	4.38%	5.14%	4.03%	4.38%	3.96% <sup>5</sup>
Expense waiver/reimbursement <sup>6</sup>	0.20%	0.25%	0.22%	0.39%	1.45% <sup>5</sup>
<b>Supplemental Data:</b>					
Net assets, end of period (000 omitted)	\$358,589	\$249,725	\$555,896	\$451,500	\$103,674
Portfolio turnover	42%	48%	66%	27%	16%

- 1 Reflects operations for the period from March 30, 2005 (date of initial investment) to October 31, 2005.
- 2 Per share numbers have been calculated using the average shares method.
- 3 Based on net asset value, which does not reflect the sales charge, redemption fee or contingent deferred sales charge, if applicable. Total returns for periods of less than one year are not annualized.
- 4 The net expense ratio is calculated without reduction for expense offset arrangements. The net expense ratios are 1.04%, 1.00%, 0.99% and 0.88%, for the years ended October 31, 2009, 2008, 2007 and 2006, respectively, after taking into account these expense reductions.
- 5 Computed on an annualized basis.
- 6 This expense decrease is reflected in both the net expense and the net investment income ratios shown above.

See Notes which are an integral part of the Financial Statements

# FINANCIAL HIGHLIGHTS – CLASS C SHARES

(For a Share Outstanding Throughout Each Period)

	Year Ended October 31,				Period Ended 10/31/2005 <sup>1</sup>
	2009	2008	2007	2006	
<b>Net Asset Value, Beginning of Period</b>	<b>\$4.02</b>	<b>\$6.37</b>	<b>\$6.28</b>	<b>\$5.22</b>	<b>\$5.00</b>
<b>Income From Investment Operations:</b>					
Net investment income	0.13	0.23	0.21	0.21 <sup>2</sup>	0.10 <sup>2</sup>
Net realized and unrealized gain (loss) on investments and foreign currency transactions	(0.17)	(2.05)	0.18	1.05	0.20
<b>TOTAL FROM INVESTMENT OPERATIONS</b>	<b>(0.04)</b>	<b>(1.82)</b>	<b>0.39</b>	<b>1.26</b>	<b>0.30</b>
<b>Less Distributions:</b>					
Distributions from net investment income	(0.13)	(0.24)	(0.21)	(0.18)	(0.08)
Distribution from net realized gain on investments and foreign currency transactions	—	(0.29)	(0.09)	(0.02)	—
<b>TOTAL DISTRIBUTIONS</b>	<b>(0.13)</b>	<b>(0.53)</b>	<b>(0.30)</b>	<b>(0.20)</b>	<b>(0.08)</b>
<b>Net Asset Value, End of Period</b>	<b>\$3.85</b>	<b>\$4.02</b>	<b>\$6.37</b>	<b>\$6.28</b>	<b>\$5.22</b>
<b>Total Return<sup>3</sup></b>	<b>(0.69)%</b>	<b>(30.57)%</b>	<b>6.16%</b>	<b>24.53%</b>	<b>5.92%</b>
<b>Ratios to Average Net Assets:</b>					
Net expenses	1.79% <sup>4</sup>	1.75% <sup>4</sup>	1.75% <sup>4</sup>	1.65% <sup>4</sup>	1.22% <sup>5</sup>
Net investment income	3.65%	4.44%	3.33%	3.69%	3.26% <sup>5</sup>
Expense waiver/reimbursement <sup>6</sup>	0.20%	0.25%	0.22%	0.39%	1.43% <sup>5</sup>
<b>Supplemental Data:</b>					
Net assets, end of period (000 omitted)	\$123,604	\$112,894	\$217,849	\$98,936	\$23,418
Portfolio turnover	42%	48%	66%	27%	16%

1 Reflects operations for the period from March 30, 2005 (date of initial investment) to October 31, 2005.

2 Per share numbers have been calculated using the average shares method.

3 Based on net asset value, which does not reflect the sales charge, redemption fee or contingent deferred sales charge, if applicable. Total returns for periods of less than one year are not annualized.

4 The net expense ratio is calculated without reduction for expense offset arrangements. The net expense ratios are 1.78%, 1.75%, 1.74% and 1.63%, for the years ended October 31, 2009, 2008, 2007 and 2006, respectively, after taking into account these expense reductions.

5 Computed on an annualized basis.

6 This expense decrease is reflected in both the net expense and the net investment income ratios shown above.

See Notes which are an integral part of the Financial Statements

## SHAREHOLDER EXPENSE EXAMPLE (UNAUDITED)

As a shareholder of the Fund, you incur two types of costs: (1) transaction costs, including sales charges (loads) on purchase or redemption payments; and (2) ongoing costs, including management fees and to the extent applicable, distribution (12b-1) fees and/or shareholder services fees and other Fund expenses. This Example is intended to help you to understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds. It is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period from May 1, 2009 to October 31, 2009.

### **ACTUAL EXPENSES**

The first section of the table below provides information about actual account values and actual expenses. You may use the information in this section, together with the amount you invested, to *estimate* the expenses that you incurred over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first section under the heading entitled “Expenses Paid During Period” to estimate the expenses attributable to your investment during this period.

### **HYPOTHETICAL EXAMPLE FOR COMPARISON PURPOSES**

The second section of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an *assumed* rate of return of 5% per year before expenses, which is not the Fund’s actual return. Thus, you should *not* use the hypothetical account values and expenses to estimate the actual ending account balance or your expenses for the period. Rather, these figures are required to be provided to enable you to compare the ongoing costs of investing in the Fund with other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs, such as sales charges (loads) on purchase or redemption payments. Therefore, the second section of the table is useful in comparing ongoing costs only, and will not help you determine the relative *total* costs of owning different funds. In addition, if these transaction costs were included, your costs would have been higher.

	Beginning Account Value 5/1/2009	Ending Account Value 10/31/2009	Expenses Paid During Period <sup>1</sup>
<b>Actual:</b>			
Class A Shares	\$1,000	\$1,204.20	\$5.83
Class C Shares	\$1,000	\$1,196.00	\$9.96
<b>Hypothetical (assuming a 5% return before expenses):</b>			
Class A Shares	\$1,000	\$1,019.91	\$5.35
Class C Shares	\$1,000	\$1,016.13	\$9.15

<sup>1</sup> Expenses are equal to the Fund's annualized net expense ratios, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period). The annualized net expense ratios are as follows:

Class A Shares	1.05%
Class C Shares	1.80%

# MANAGEMENT'S DISCUSSION OF FUND PERFORMANCE (UNAUDITED)

The Fund's total return, at net asset value, for the fiscal year ended October 31, 2009 was 0.31% for Class A Shares and -0.69% for Class C Shares. The total returns of the Dow Jones Select Dividend Index<sup>1</sup> and the S&P 500 Index<sup>2</sup> were -8.35% and 9.80%, respectively, for the same period. The Fund's total return for the fiscal year reflected actual cash flows, transaction costs and other expenses, which were not reflected in the total return of the benchmarks.

The following discussion will focus on the performance of the Fund's Class A Shares.

## MARKET OVERVIEW

The fiscal year ended October 31, 2009 was a challenging environment for an equity income strategy as it marked the bottom of the longest recession in the post World War II era and endured a low-quality, post-recession rally. Over the course of the year, the stock market was buffeted by multiple head-winds as almost every major indicator trended downward, from retail sales and industrial production to record lows for home sales, home prices and home building. On the employment front, the jobless rate hit a 26-year high, fueled by the greatest job losses in decades. Attempting to stem further declines were the nearly \$1 trillion in financial stimulus and the government's intervention into numerous failing financial institutions. Despite unknown and potentially negative long-term implications, these moves provided near-term support to economic activity and brought some hints of an eventual recovery.

- 1 The Dow Jones Select Dividend Index is a dividend-weighted index intended to represent the 100 stocks in the Dow Jones U.S. Total Market Index that have the highest indicated annual dividend yield. It is not possible to invest directly in an index.*
- 2 The S&P 500 Index is an unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. It is not possible to invest directly in an index.*

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Investor focus shifted from relief over avoiding further economic decline to debate about the strength and timing of a recovery. The reality is, despite a stock market rally that added more than \$1 trillion to household net worth in the second quarter, households are down some \$11 trillion from the collapse in stock and home prices, household debt is a near-record 122% of disposable income, and home foreclosures and mortgage delinquencies are on the rise—with one in eight homeowners in arrears on their mortgages and nearly one in three underwater (owing more than their home is worth).

## **FUND PERFORMANCE**

On an absolute performance basis, the Fund continued to deliver on its objective of providing a substantially higher than market yield. While the overall dividend growth profile of the Fund was impaired by the widespread dividend declines in the marketplace, the product continued to focus on investing in those stocks that provide growth in dividend income over time. To this point, the portfolio experienced 27 dividend increases and four dividend cuts for the fiscal year. There was a revival in dividend increases toward the end of the fiscal year. The low risk features of the Fund remained intact with the product offering a three-year beta of 0.74 versus the S&P 500 Index.

Performance during the fiscal year was dominated by the market's preferences in the post-recession rally. Since the bounce off the market bottom in early March, investors have favored features contrary to the Fund's style including high beta, small capitalization and lowest quality stocks. Highest returns were focused in sectors that provide little to no dividend opportunity, including Consumer Discretionary, Materials and Information Technology. As a result, the Fund outperformed the universe of dividend-yielding stocks as represented by the Dow Jones Dividend Select Index yet lagged the broad market as measured by the S&P 500 Index.

The leading contributor to the Fund's outperformance to the Dow Jones Select Dividend Index was the Fund's comparative avoidance of the Financials sector. The Fund's 20% underweight position contributed 7.6% of positive group weight variance as the Financials sector was the worst performing sector in the index. The Fund gained another 4.3% of positive total variance from a 17.3% overweight position, coupled with positive stock selection, within Telecommunication Services. The Fund's holdings outperformed those in the benchmark by 11.5% with stocks in the Fund, but not in the benchmark, such as BCE and Windstream gaining 30.8% and 43.8%, respectively. Both the Fund and the benchmark held Centurytel and AT&T, each posting low single-digit returns.

Underperformance to the S&P 500 was due to the rotation of low-quality, high-beta stocks back into market favor toward the end of the fiscal year. The Fund lagged most notably with its 17.4% underweight position in the Information Technology sector, which posted the highest returns, at 31.5%, in the period. The Fund was further penalized by 0.90% and 2.40%, respectively, of negative group weight variance from underweight positions in Consumer Discretionary and Financials sector holdings. Furthermore, negative stock selection within Consumer Discretionary cost the Fund 0.9%.

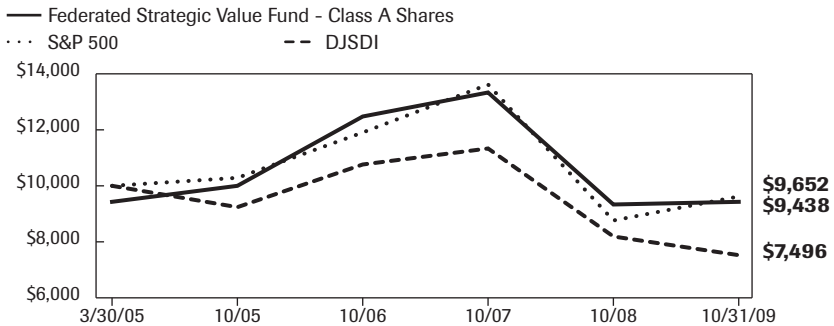
## GROWTH OF A \$10,000 INVESTMENT – CLASS A SHARES

The graph below illustrates the hypothetical investment of \$10,000<sup>1</sup> in the Federated Strategic Value Fund (Class A Shares) (the “Fund”) from March 30, 2005 (start of performance) to October 31, 2009, compared to the Standard & Poor’s 500 Index (S&P 500)<sup>2</sup> and the Dow Jones Select Dividend Index (DJSDI).<sup>2</sup>

### Average Annual Total Returns<sup>3</sup> for the Period Ended 10/31/2009

1 Year	-5.13%
Start of Performance (3/30/2005)	-1.25%

### GROWTH OF \$10,000 AS OF OCTOBER 31, 2009



Performance data 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. Mutual fund performance changes over time and current performance may be lower or higher than what is stated. For current to the most recent month-end performance and after-tax returns, visit [FederatedInvestors.com](http://FederatedInvestors.com) or call 1-800-341-7400. Returns shown do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Mutual funds are not obligations of or guaranteed by any bank and are not federally insured. Total returns shown include the maximum sales charge of 5.50%.

- 1 Represents a hypothetical investment of \$10,000 in the Fund after deducting the maximum sales charge of 5.50% (\$10,000 investment minus \$550 sales charge = \$9,450). The Fund’s performance assumes the reinvestment of all dividends and distributions. The S&P 500 and the DJSDI have been adjusted to reflect reinvestment of dividends on securities in the indexes.
- 2 The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The DJSDI is a dividend-weighted index intended to represent the 100 stocks in the Dow Jones U.S. Total Market Index that have the highest indicated annual dividend yield. The S&P 500 and the DJSDI are not adjusted to reflect sales loads, expenses or other fees that the Securities and Exchange Commission (SEC) requires to be reflected in the Fund’s performance. The indexes are unmanaged and, unlike the Fund, are not affected by cash flows. It is not possible to invest in an index.
- 3 Total returns quoted reflect all applicable sales charges.

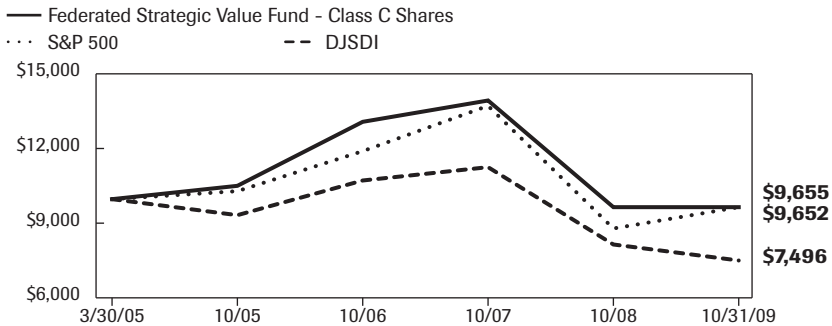
## GROWTH OF A \$10,000 INVESTMENT – CLASS C SHARES

The graph below illustrates the hypothetical investment of \$10,000<sup>1</sup> in the Federated Strategic Value Fund (Class C Shares) (the “Fund”) from March 30, 2005 (start of performance) to October 31, 2009, compared to the Standard & Poor’s 500 Index (S&P 500)<sup>2</sup> and the Dow Jones Select Dividend Index (DJSDI).<sup>2</sup>

### Average Annual Total Returns<sup>3</sup> for the Period Ended 10/31/2009

1 Year	-1.65%
Start of Performance (3/30/2005)	-0.76%

### GROWTH OF \$10,000 AS OF OCTOBER 31, 2009



Performance data 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. Mutual fund performance changes over time and current performance may be lower or higher than what is stated. For current to the most recent month-end performance and after-tax returns, visit [FederatedInvestors.com](http://FederatedInvestors.com) or call 1-800-341-7400. Returns shown do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Mutual funds are not obligations of or guaranteed by any bank and are not federally insured. Total returns shown include the maximum contingent deferred sales charge of 1.00%, as applicable.

- 1 Represents a hypothetical investment of \$10,000 in the Fund. A 1.00% contingent deferred sales charge would be applied to any redemption less than one year from the purchase date. The Fund’s performance assumes the reinvestment of all dividends and distributions. The S&P 500 and the DJSDI have been adjusted to reflect reinvestment of dividends on securities in the indexes.
- 2 The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The DJSDI is a dividend-weighted index intended to represent the 100 stocks in the Dow Jones U.S. Total Market Index that have the highest indicated annual dividend yield. The S&P 500 and the DJSDI are not adjusted to reflect sales loads, expenses or other fees that the SEC requires to be reflected in the Fund’s performance. The indexes are unmanaged and, unlike the Fund, are not affected by cash flows. It is not possible to invest in an index.
- 3 Total returns quoted reflect all applicable contingent deferred sales charges.

# PORTFOLIO OF INVESTMENTS SUMMARY TABLE (UNAUDITED)

At October 31, 2009, the Fund's sector composition<sup>1</sup> was as follows:

Sector Composition	Percentage of Total Net Assets
Consumer Staples	24.3%
Telecommunication Services	18.8%
Health Care	17.4%
Energy	16.2%
Utilities	13.9%
Consumer Discretionary	3.0%
Financials	3.0%
Industrials	1.8%
Information Technology	0.5%
Cash Equivalents <sup>2</sup>	0.7%
Other Assets and Liabilities—Net <sup>3</sup>	0.4%
<b>TOTAL</b>	<b>100.0%</b>

- 1 *Except for Cash Equivalents and Other Assets and Liabilities, sector classifications are based upon, and individual portfolio securities are assigned to, the classifications of the Global Industry Classification Standard (GICS) except that the adviser assigns a classification to securities not classified by the GICS and to securities for which the adviser does not have access to the classification made by the GICS.*
- 2 *Cash Equivalents include any investments in money market mutual funds and/or overnight repurchase agreements.*
- 3 *Assets, other than investments in securities, less liabilities. See Statement of Assets and Liabilities.*

# PORTFOLIO OF INVESTMENTS

October 31, 2009

## Shares

## Value

Shares		Value
	COMMON STOCKS—98.9%	
	<b>Consumer Discretionary—3.0%</b>	
440,625	McDonald's Corp.	\$ 25,825,031
	<b>Consumer Staples—24.3%</b>	
991,585	Altria Group, Inc.	17,957,604
134,500	Clorox Corp.	7,966,435
994,865	Diageo PLC	16,214,582
590,070	H.J. Heinz Co.	23,744,417
446,725	Kimberly-Clark Corp.	27,321,701
213,400	Lorillard, Inc.	16,585,448
556,485	Philip Morris International, Inc.	26,355,130
361,770	Procter & Gamble Co.	20,982,660
407,931	Reynolds American, Inc.	19,776,495
322,975	The Coca-Cola Co.	17,217,797
541,802	Unilever PLC	16,217,214
	<b>TOTAL</b>	<b>210,339,483</b>
	<b>Energy—16.2%</b>	
541,345	BP PLC, ADR	30,650,954
397,880	Chevron Corp.	30,453,735
445,555	ConocoPhillips	22,357,950
1,006,925	Royal Dutch Shell PLC, Class B	29,168,363
462,840	Total S.A.	27,560,613
	<b>TOTAL</b>	<b>140,191,615</b>
	<b>Financials—3.0%</b>	
365,300	HCP, Inc.	10,809,227
246,000	Health Care REIT, Inc.	10,915,020
178,300	Realty Income Corp.	4,132,994
	<b>TOTAL</b>	<b>25,857,241</b>
	<b>Health Care—17.4%</b>	
368,500	Abbott Laboratories	18,635,045
233,000	AstraZeneca PLC	10,472,719
1,200,815	Bristol-Myers Squibb Co.	26,177,767
792,815	Eli Lilly & Co.	26,963,638
1,105,481	GlaxoSmithKline PLC	22,702,732
360,315	Johnson & Johnson	21,276,601

Shares		Value
	COMMON STOCKS—continued	
	<b>Health Care—continued</b>	
800,025	Merck & Co., Inc.	\$ 24,744,773
	TOTAL	150,973,275
	<b>Industrials—1.8%</b>	
217,800	Emerson Electric Co.	8,221,950
259,300	Waste Management, Inc.	7,747,884
	TOTAL	15,969,834
	<b>Information Technology—0.5%</b>	
141,000	Paychex, Inc.	4,005,810
	<b>Telecommunication Services—18.8%</b>	
863,945	AT&T, Inc.	22,177,468
962,710	BCE, Inc.	23,034,575
364,330	CenturyTel, Inc.	11,826,152
850,740	Deutsche Telekom AG, Class REG	11,603,059
844,863	France Telecom SA	20,889,986
827,698	Telefonica SA	23,102,641
748,955	Verizon Communications, Inc.	22,161,578
8,051,874	Vodafone Group PLC	17,814,685
1,017,685	Windstream Corp.	9,810,483
	TOTAL	162,420,627
	<b>Utilities—13.9%</b>	
308,495	AGL Resources, Inc.	10,784,985
665,995	Dominion Resources, Inc.	22,703,770
1,582,000	Duke Energy Corp.	25,027,240
276,192	NSTAR	8,548,142
430,675	Progress Energy, Inc.	16,163,233
320,040	SCANA Corp.	10,830,154
843,928	Southern Co.	26,322,114
	TOTAL	120,379,638
	TOTAL COMMON STOCKS (IDENTIFIED COST \$859,437,521)	855,962,554
	MUTUAL FUND—0.7%	
6,587,253	<sup>1,2</sup> Prime Value Obligations Fund, Institutional Shares, 0.22% (AT NET ASSET VALUE)	6,587,253
	TOTAL INVESTMENTS—99.6% (IDENTIFIED COST \$866,024,774) <sup>3</sup>	862,549,807
	OTHER ASSETS AND LIABILITIES - NET—0.4% <sup>4</sup>	3,146,549
	TOTAL NET ASSETS—100%	\$865,696,356

- 1 *Affiliated company.*
- 2 *7-Day net yield.*
- 3 *The cost of investments for federal tax purposes amounts to \$866,157,733.*
- 4 *Assets, other than investments in securities, less liabilities. See Statement of Assets and Liabilities.*

Note: The categories of investments are shown as a percentage of total net assets at October 31, 2009.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in the three broad levels listed below:

Level 1—quoted prices in active markets for identical securities

Level 2—other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3—significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used, as of October 31, 2009, in valuing the Fund's assets carried at fair value:

#### Valuation Inputs

	Level 1 – Quoted Prices and Investments in Mutual Funds	Level 2 – Other Significant Observable Inputs	Level 3 – Significant Unobservable Inputs	Total
<b>Equity Securities:</b>				
Domestic	\$606,530,432	\$—	\$—	\$606,530,432
International	53,685,529	195,746,593	—	249,432,122
<b>Mutual Fund</b>	6,587,253	—	—	6,587,253
<b>TOTAL SECURITIES</b>	<b>\$666,803,214</b>	<b>\$195,746,593</b>	<b>\$—</b>	<b>\$862,549,807</b>

The following acronym is used throughout this portfolio:

ADR—American Depositary Receipt

See Notes which are an integral part of the Financial Statements

# STATEMENT OF ASSETS AND LIABILITIES

October 31, 2009

## Assets:

Total investments in securities, at value including \$6,587,253 of investments in an affiliated issuer (Note 5) (identified cost \$866,024,774)	\$ 862,549,807
Cash	174,051
Cash denominated in foreign currencies (identified cost \$19,982)	19,596
Income receivable	2,404,723
Receivable for investments sold	4,778
Receivable for shares sold	2,823,066
<b>TOTAL ASSETS</b>	<b>867,976,021</b>

## Liabilities:

Payable for shares redeemed	\$1,797,716
Payable for transfer and dividend disbursing agent fees and expenses	74,627
Payable for distribution services fee (Note 5)	78,401
Payable for shareholder services fee (Note 5)	252,930
Payable for Directors'/Trustees' fees	2,290
Accrued expenses	73,701
<b>TOTAL LIABILITIES</b>	<b>2,279,665</b>
Net assets for 224,804,341 shares outstanding	\$ 865,696,356

## Net Assets Consist of:

Paid-in capital	\$1,137,444,432
Net unrealized depreciation of investments and translation of assets and liabilities in foreign currency	(3,468,073)
Accumulated net realized loss on investments and foreign currency transactions	(269,777,558)
Undistributed net investment income	1,497,555
<b>TOTAL NET ASSETS</b>	<b>\$ 865,696,356</b>

# STATEMENT OF ASSETS AND LIABILITIES – CONTINUED

## **Net Asset Value, Offering Price and Redemption Proceeds Per Share**

### **Institutional Shares:**

Net asset value per share (\$383,502,777 ÷ 99,455,842 shares outstanding), no par value, unlimited shares authorized	\$3.86
Offering price per share	\$3.86
Redemption proceeds per share	\$3.86

### **Class A Shares:**

Net asset value per share (\$358,589,114 ÷ 93,259,245 shares outstanding), no par value, unlimited shares authorized	\$3.85
Offering price per share (100/94.50 of \$3.85)	\$4.07
Redemption proceeds per share	\$3.85

### **Class C Shares:**

Net asset value per share (\$123,604,465 ÷ 32,089,254 shares outstanding), no par value, unlimited shares authorized	\$3.85
Offering price per share	\$3.85
Redemption proceeds per share (99.00/100 of \$3.85)	\$3.81

See Notes which are an integral part of the Financial Statements

# STATEMENT OF OPERATIONS

Year Ended October 31, 2009

## Investment Income:

Dividends (including \$279,844 received from an affiliated issuer (Note 5) and net of foreign taxes withheld of \$505,864)

\$34,769,678

## Expenses:

Investment adviser fee (Note 5)	\$4,819,221
Administrative personnel and services fee (Note 5)	498,762
Custodian fees	59,698
Transfer and dividend disbursing agent fees and expenses	674,300
Directors'/Trustees' fees	6,040
Auditing fees	22,400
Legal fees	5,069
Portfolio accounting fees	129,287
Distribution services fee—Class C Shares (Note 5)	802,444
Shareholder services fee—Class A Shares (Note 5)	699,305
Shareholder services fee—Class C Shares (Note 5)	259,343
Account administration fee—Class A Shares	4,804
Account administration fee—Class C Shares	576
Share registration costs	53,199
Printing and postage	90,129
Insurance premiums	3,802
Miscellaneous	4,554
<b>TOTAL EXPENSES</b>	<b>8,132,933</b>

# STATEMENT OF OPERATIONS – CONTINUED

## **Waivers, Reimbursement and Expense Reduction:**

Waiver/reimbursement of investment adviser fee (Note 5)	\$(1,228,557)
Waiver of administrative personnel and services fee (Note 5)	(9,772)
Fees paid indirectly from directed brokerage arrangements (Note 6)	(27,358)
<b>TOTAL WAIVERS, REIMBURSEMENT AND EXPENSE REDUCTION</b>	<b>\$(1,265,687)</b>

Net expenses	\$ 6,867,246
Net investment income	27,902,432

## **Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Transactions:**

Net realized loss on investments and foreign currency transactions	(111,299,565)
Net change in unrealized depreciation of investments and translation of assets and liabilities in foreign currency	115,478,072
Net realized and unrealized gain on investments and foreign currency transactions	4,178,507
Change in net assets resulting from operations	\$ 32,080,939

See Notes which are an integral part of the Financial Statements

# STATEMENT OF CHANGES IN NET ASSETS

Year Ended October 31	2009	2008
<b>Increase (Decrease) in Net Assets</b>		
<b>Operations:</b>		
Net investment income	\$ 27,902,432	\$ 37,740,877
Net realized loss on investments and foreign currency transactions	(111,299,565)	(159,158,300)
Net change in unrealized appreciation/depreciation of investments and translation of assets and liabilities in foreign currency	115,478,072	(138,352,041)
<b>CHANGE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>32,080,939</b>	<b>(259,769,464)</b>
<b>Distributions to Shareholders:</b>		
Distributions from net investment income		
Institutional Shares	(11,149,598)	(10,312,929)
Class A Shares	(12,436,345)	(21,360,233)
Class C Shares	(3,870,108)	(7,482,872)
Distributions from net realized gain on investments and foreign currency transactions		
Institutional Shares	—	(8,905,275)
Class A Shares	—	(24,168,884)
Class C Shares	—	(9,508,724)
<b>CHANGE IN NET ASSETS RESULTING FROM DISTRIBUTIONS TO SHAREHOLDERS</b>	<b>(27,456,051)</b>	<b>(81,738,917)</b>
<b>Share Transactions:</b>		
Proceeds from sale of shares	558,427,866	268,193,176
Net asset value of shares issued to shareholders in payment of distributions declared	17,675,948	63,505,448
Cost of shares redeemed	(253,838,605)	(424,759,433)
<b>CHANGE IN NET ASSETS RESULTING FROM SHARE TRANSACTIONS</b>	<b>322,265,209</b>	<b>(93,060,809)</b>
Change in net assets	326,890,097	(434,569,190)
<b>Net Assets:</b>		
Beginning of period	538,806,259	973,375,449
End of period (including undistributed net investment income of \$1,497,555 and \$1,121,022, respectively)	\$ 865,696,356	\$ 538,806,259

See Notes which are an integral part of the Financial Statements

# NOTES TO FINANCIAL STATEMENTS

October 31, 2009

## 1. ORGANIZATION

Federated Equity Funds (the "Trust") is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company. The Trust consists of 13 portfolios. The financial statements included herein are only those of Federated Strategic Value Fund (the "Fund"), a diversified portfolio. The financial statements of the other portfolios are presented separately. The assets of each portfolio are segregated and a shareholder's interest is limited to the portfolio in which shares are held. Each portfolio pays its own expenses. The Fund offers three classes of shares: Institutional Shares, Class A Shares and Class C Shares. All shares of the Fund have equal rights with respect to voting, except on class-specific matters. The financial highlights of the Institutional Shares are presented separately. The investment objective of the Fund is to provide income and long-term capital appreciation.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. These policies are in conformity with U.S. generally accepted accounting principles (GAAP).

### Investment Valuation

In calculating its net asset value (NAV), the Fund generally values investments as follows:

- Equity securities listed on an exchange or traded through a regulated market system are valued at their last reported sale price or official closing price in their principal exchange or market.
- Shares of other mutual funds are valued based upon their reported NAVs.
- Derivative contracts listed on exchanges are valued at their reported settlement or closing price.
- Over-the-counter (OTC) derivative contracts are fair valued using price evaluations provided by a pricing service approved by the Board of Trustees (the "Trustees").
- Fixed-income securities acquired with remaining maturities greater than 60 days are fair valued using price evaluations provided by a pricing service approved by the Trustees.
- Fixed-income securities acquired with remaining maturities of 60 days or less are valued at their cost (adjusted for the accretion of any discount or amortization of any premium).

If the Fund cannot obtain a price or price evaluation from a pricing service for an investment, the Fund may attempt to value the investment based upon the mean of bid and asked quotations or fair value the investment based on price evaluations, from one or more dealers. If any price, quotation, price evaluation or other pricing source is not readily available when the NAV is calculated, the Fund uses the fair value of the investment determined in accordance with the procedures described below. There can be no assurance that the Fund could purchase or sell an investment at the price used to calculate the Fund's NAV.

### Fair Valuation and Significant Events Procedures

The Trustees have authorized the use of pricing services to provide evaluations of the current fair value of certain investments for purposes of calculating the NAV. Factors considered by pricing services in evaluating an investment include the yields or prices of investments of comparable quality, coupon, maturity, call rights and other potential prepayments, terms and type, reported transactions, indications as to values from dealers and general market

conditions. Some pricing services provide a single price evaluation reflecting the bid-side of the market for an investment (a “bid” evaluation). Other pricing services offer both bid evaluations and price evaluations indicative of a price between the prices bid and asked for the investment (a “mid” evaluation). The Fund normally uses bid evaluations for U.S. Treasury and Agency securities, mortgage-backed securities and municipal securities. The Fund normally uses mid evaluations for other types of fixed-income securities and OTC derivative contracts. In the event that market quotations and price evaluations are not available for an investment, the fair value of the investment is determined in accordance with procedures adopted by the Trustees.

The Trustees also have adopted procedures requiring an investment to be priced at its fair value whenever the Adviser determines that a significant event affecting the value of the investment has occurred between the time as of which the price of the investment would otherwise be determined and the time as of which the NAV is computed. An event is considered significant if there is both an affirmative expectation that the investment’s value will change in response to the event and a reasonable basis for quantifying the resulting change in value. Examples of significant events that may occur after the close of the principal market on which a security is traded, or after the time of a price evaluation provided by a pricing service or a dealer, include:

- With respect to securities traded in foreign markets, significant trends in U.S. equity markets or in the trading of foreign securities index futures or options contracts;
- With respect to price evaluations of fixed-income securities determined before the close of regular trading on the NYSE, actions by the Federal Reserve Open Market Committee and other significant trends in U.S. fixed-income markets;
- Political or other developments affecting the economy or markets in which an issuer conducts its operations or its securities are traded; and
- Announcements concerning matters such as acquisitions, recapitalizations, litigation developments, a natural disaster affecting the issuer’s operations or regulatory changes or market developments affecting the issuer’s industry.

The Trustees have approved the use of a pricing service to determine the fair value of equity securities traded principally in foreign markets when the Adviser determines that there has been a significant trend in the U.S. equity markets or in index futures trading. For other significant events, the Fund may seek to obtain more current quotations or price evaluations from alternative pricing sources. If a reliable alternative pricing source is not available, the Fund will determine the fair value of the investment using another method approved by the Trustees.

## **Repurchase Agreements**

It is the policy of the Fund to require the other party to a repurchase agreement to transfer to the Fund’s custodian or sub-custodian eligible securities or cash with a market value (after transaction costs) at least equal to the repurchase price to be paid under the repurchase agreement. The eligible securities are transferred to accounts with the custodian or sub-custodian in which the Fund holds a “securities entitlement” and exercises “control” as those terms are defined in the Uniform Commercial Code. The Fund has established procedures for monitoring the market value of the transferred securities and requiring the transfer of additional eligible securities if necessary to equal at least the repurchase price. These procedures also allow the other party to require securities to be transferred from the account to the extent that their market value exceeds the repurchase price or in exchange for other eligible securities of equivalent market value.

With respect to agreements to repurchase U.S. government securities and cash items, the Fund treats the repurchase agreement as an investment in the underlying securities and not as an obligation of the other party to the repurchase agreement. Other repurchase agreements are treated as obligations of the other party secured by the underlying securities. Nevertheless, the insolvency of the other party or other failure to repurchase the securities may delay the disposition of the underlying securities or cause the Fund to receive less than the full repurchase price. Under the terms of the repurchase agreement, any amounts received by the Fund in excess of the repurchase price and related transaction costs must be remitted to the other party.

The Fund may enter into repurchase agreements in which eligible securities are transferred into joint trading accounts maintained by the custodian or sub-custodian for investment companies and other clients advised by the Fund's Adviser and its affiliates. The Fund will participate on a pro rata basis with the other investment companies and clients in its share of the securities transferred under such repurchase agreements and in its share of proceeds from any repurchase or other disposition of such securities.

### **Investment Income, Gains and Losses, Expenses and Distributions**

Investment transactions are accounted for on a trade-date basis. Realized gains and losses from investment transactions are recorded on an identified-cost basis. Interest income and expenses are accrued daily. Dividend income and distributions to shareholders are recorded on the ex-dividend date. Foreign dividends are recorded on the ex-dividend date or when the Fund is informed of the ex-dividend date. Distributions of net investment income are declared and paid monthly. Non-cash dividends included in dividend income, if any, are recorded at fair value. Investment income, realized and unrealized gains and losses and certain fund-level expenses are allocated to each class based on relative average daily net assets, except that each class may bear certain expenses unique to that class such as account administration, distribution services and shareholder services fees. Dividends are declared separately for each class. No class has preferential dividend rights; differences in per share dividend rates are generally due to differences in separate class expenses.

### **Premium and Discount Amortization**

All premiums and discounts on fixed-income securities are amortized/accreted for financial statement purposes.

### **Federal Taxes**

It is the Fund's policy to comply with the Subchapter M provision of the Internal Revenue Code (the "Code") and to distribute to shareholders each year substantially all of its income. Accordingly, no provision for federal income tax is necessary. As of and during the year ended October 31, 2009, the Fund did not have a liability for any uncertain tax positions. The Fund recognizes interest and penalties, if any, related to tax liabilities as income tax expense in the Statement of Operations. As of October 31, 2009, tax years 2006 through 2009 remain subject to examination by the Fund's major tax jurisdictions, which include the United States of America and the Commonwealth of Massachusetts.

The Fund may be subject to taxes imposed by governments of countries in which it invests. Such taxes are generally based on either income or gains earned or repatriated. The Fund accrues and applies such taxes to net investment income, net realized gains and net unrealized gains as income and/or gains are earned.

## When-Issued and Delayed Delivery Transactions

The Fund may engage in when-issued or delayed delivery transactions. The Fund records when-issued securities on the trade date and maintains security positions such that sufficient liquid assets will be available to make payment for the securities purchased. Securities purchased on a when-issued or delayed delivery basis are marked to market daily and begin earning interest on the settlement date. Losses may occur on these transactions due to changes in market conditions or the failure of counterparties to perform under the contract.

## Foreign Currency Translation

The accounting records of the Fund are maintained in U.S. dollars. All assets and liabilities denominated in foreign currencies (FCs) are translated into U.S. dollars based on the rates of exchange of such currencies against U.S. dollars on the date of valuation. Purchases and sales of securities, income and expenses are translated at the rate of exchange quoted on the respective date that such transactions are recorded. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

Reported net realized foreign exchange gains or losses arise from sales of portfolio securities, sales and maturities of short-term securities, sales of FCs, currency gains or losses realized between the trade and settlement dates on securities transactions, the difference between the amounts of dividends, interest and foreign withholding taxes recorded on the Fund's books, and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities other than investments in securities at fiscal year end, resulting from changes in the exchange rate.

## Other

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets, liabilities, expenses and revenues reported in the financial statements. Actual results could differ from those estimated.

## 3. SHARES OF BENEFICIAL INTEREST

The following tables summarize share activity:

Year Ended October 31	2009		2008	
	Shares	Amount	Shares	Amount
<b>Institutional Shares:</b>				
Shares sold	83,605,179	\$ 297,549,252	25,974,317	\$127,806,862
Shares issued to shareholders in payment of distributions declared	1,509,664	5,433,865	2,017,469	10,947,943
Shares redeemed	(29,490,952)	(105,551,197)	(15,481,308)	(78,753,625)
NET CHANGE RESULTING FROM INSTITUTIONAL SHARE TRANSACTIONS	55,623,891	\$ 197,431,920	12,510,478	\$ 60,001,180

Year Ended October 31	2009		2008	
Class A Shares:	Shares	Amount	Shares	Amount
Shares sold	61,006,487	\$ 216,116,030	21,162,592	\$ 107,920,645
Shares issued to shareholders in payment of distributions declared	2,533,845	9,093,307	6,937,960	37,946,847
Shares redeemed	(32,564,324)	(114,933,297)	(53,217,904)	(267,747,175)
NET CHANGE RESULTING FROM CLASS A SHARE TRANSACTIONS	30,976,008	\$ 110,276,040	(25,117,352)	\$(121,879,683)

Year Ended October 31	2009		2008	
Class C Shares:	Shares	Amount	Shares	Amount
Shares sold	12,456,454	\$ 44,762,584	6,304,293	\$ 32,465,669
Shares issued to shareholders in payment of distributions declared	875,231	3,148,776	2,659,723	14,610,658
Shares redeemed	(9,350,190)	(33,354,111)	(15,035,052)	(78,258,633)
NET CHANGE RESULTING FROM CLASS C SHARE TRANSACTIONS	3,981,495	\$ 14,557,249	(6,071,036)	\$(31,182,306)
NET CHANGE RESULTING FROM FUND SHARE TRANSACTIONS	90,581,394	\$322,265,209	(18,677,910)	\$(93,060,809)

#### 4. FEDERAL TAX INFORMATION

The timing and character of income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP. These differences are due to differing treatments for foreign currency transactions.

For the year ended October 31, 2009, permanent differences identified and reclassified among the components of net assets were as follows:

	Increase (Decrease)	
<b>Undistributed Net Investment Income (Loss)</b>		<b>Accumulated Net Realized Gain (Loss)</b>
\$(69,848)		\$69,848

Net investment income (loss), net realized gains (losses) and net assets were not affected by this reclassification.

The tax character of distributions as reported on the Statement of Changes in Net Assets for the years ended October 31, 2009 and 2008, was as follows:

	2009	2008
Ordinary income <sup>1</sup>	\$27,456,051	\$61,361,918
Long-term capital gains	\$ —	\$20,376,999

1 For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

As of October 31, 2009, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	\$ 1,497,555
Net unrealized depreciation	\$ (3,601,032)
Capital loss carryforwards	\$(269,644,599)

At October 31, 2009, the cost of investments for federal tax purposes was \$866,157,733. The net unrealized depreciation of investments for federal tax purposes excluding any unrealized appreciation/depreciation resulting from changes in foreign currency exchange rates was \$3,607,926. This consists of net unrealized appreciation from investments for those securities having an excess of value over cost of \$41,471,112 and net unrealized depreciation from investments for those securities having an excess of cost over value of \$45,079,038.

At October 31, 2009, the Fund had a capital loss carryforward of \$269,644,599 which will reduce the Fund's taxable income arising from future net realized gains on investments, if any, to the extent permitted by the Code and thus will reduce the amount of distributions to shareholders which would otherwise be necessary to relieve the Fund of any liability for federal income tax. Pursuant to the Code, such capital loss carryforward will expire as follows:

Expiration Year	Expiration Amount
2016	\$158,355,277
2017	\$111,289,322

## 5. INVESTMENT ADVISER FEE AND OTHER TRANSACTIONS WITH AFFILIATES

### Investment Adviser Fee

Federated Equity Management Company of Pennsylvania is the Fund's investment adviser (the "Adviser"). The advisory agreement between the Fund and the Adviser provides for an annual fee equal to 0.75% of the Fund's average daily net assets. Subject to the terms described in the Expense Limitation note, the Adviser may voluntarily choose to waive any portion of its fee. The Adviser can modify or terminate this voluntary waiver at any time at its sole discretion. For the year ended October 31, 2009, the Adviser voluntarily waived \$1,207,318 of its fee.

### Administrative Fee

Federated Administrative Services (FAS), under the Administrative Services Agreement, provides the Fund with administrative personnel and services. The fee paid to FAS is based on the average aggregate daily net assets of certain Federated funds as specified below:

Administrative Fee	Average Aggregate Daily Net Assets of the Federated Funds
0.150%	on the first \$5 billion
0.125%	on the next \$5 billion
0.100%	on the next \$10 billion
0.075%	on assets in excess of \$20 billion

The administrative fee received during any fiscal year shall be at least \$150,000 per portfolio and \$40,000 per each additional class of Shares. Subject to the terms described in the Expense Limitation note, FAS may voluntarily choose to waive any portion of its fee. FAS can modify or terminate this voluntary waiver at any time at its sole discretion. For the year ended October 31, 2009, the net fee paid to FAS was 0.076% of average daily net assets of the Fund. FAS waived \$9,772 of its fee.

### **Distribution Services Fee**

The Fund has adopted a Distribution Plan (the "Plan") pursuant to Rule 12b-1 under the Act. Under the terms of the Plan, the Fund will compensate Federated Securities Corp. (FSC), the principal distributor, from the daily net assets of the Fund's Class A Shares and Class C Shares to finance activities intended to result in the sale of these shares. The Plan provides that the Fund may incur distribution expenses at the following percentages of average daily net assets annually, to compensate FSC:

<b>Share Class Name</b>	<b>Percentage of Average Daily Net Assets of Class</b>
Class A Shares	0.05%
Class C Shares	0.75%

Subject to the terms described in the Expense Limitation note, FSC may voluntarily choose to waive any portion of its fee. FSC can modify or terminate this voluntary waiver at any time at its sole discretion. When FSC receives fees, it may pay some or all of them to financial intermediaries whose customers purchase shares. For the year ended October 31, 2009, FSC retained \$206,916 of fees paid by the Fund. For the year ended October 31, 2009, the Fund's Class A Shares did not incur a distribution services fee; however it may begin to incur this fee upon approval of the Trustees.

### **Sales Charges**

Front-end sales charges and contingent deferred sales charges (CDSC) do not represent expenses of the Fund. They are deducted from the proceeds of sales of Fund shares prior to investment or from redemption proceeds prior to remittance, as applicable. For the year ended October 31, 2009, FSC retained \$123,475 in sales charges from the sale of Class A Shares. FSC also retained \$3,526 of CDSC relating to redemptions of Class A Shares and \$15,635 relating to redemption of Class C Shares.

### **Shareholder Services Fee**

The Fund may pay fees (Service Fees) up to 0.25% of the average daily net assets of the Fund's Class A Shares and Class C Shares to financial intermediaries or to Federated Shareholder Services Company (FSSC) for providing services to shareholders and maintaining shareholder accounts. Subject to the terms described in the Expense Limitation note, FSSC may voluntarily reimburse the Fund for shareholder services fees. This voluntary reimbursement can be modified or terminated at any time. For the year ended October 31, 2009, FSSC received \$6,529 of fees paid by the Fund.

### **Interfund Transactions**

During the year ended October 31, 2009, the Fund engaged in purchase and sale transactions with funds that have a common investment adviser (or affiliated investment advisers), common Directors/Trustees, and/or common Officers. These purchase and sale transactions complied with Rule 17a-7 under the Act and amounted to \$381,254 and \$0, respectively.

## Expense Limitation

The Adviser and its affiliates (which may include FSC, FAS and FSSC) have voluntarily agreed to waive their fees and/or reimburse expenses so that the total operating expenses (as shown in the financial highlights) paid by the Fund's Institutional Shares, Class A Shares and Class C Shares (after the voluntary waivers and reimbursements) will not exceed 0.80%, 1.05% and 1.80%, respectively, through the later of (the "Termination Date"): (a) December 31, 2010; or (b) the date of the Fund's next effective Prospectus. While the Adviser and its affiliates currently do not anticipate terminating these arrangements prior to the Termination Date, these arrangements may only be terminated prior to the Termination Date with the agreement of the Fund's Board of Trustees.

## General

Certain Officers and Trustees of the Fund are Officers and Directors or Trustees of the above companies.

## Transactions with Affiliated Companies

Affiliated holdings are mutual funds which are managed by the Adviser or an affiliate of the Adviser. The Adviser has agreed to reimburse the Fund for certain investment adviser fees as a result of transactions in other affiliated mutual funds. For the year ended October 31, 2009, the Adviser reimbursed \$21,239. Transactions with the affiliated company during the year ended October 31, 2009 were as follows:

Affiliate	Balance of Shares Held 10/31/2008	Purchases/ Additions	Sales/ Reductions	Balance of Shares Held 10/31/2009	Value	Dividend Income
Prime Value Obligations Fund, Institutional Shares	25,326,593	302,743,516	321,482,856	6,587,253	\$6,587,253	\$279,844

## 6. EXPENSE REDUCTION

The Fund directs portfolio trades to a broker that in turn pays a portion of the Fund's operating expenses. For the year ended October 31, 2009, the Fund's expenses were reduced by \$27,358 under these arrangements.

## 7. INVESTMENT TRANSACTIONS

Purchases and sales of investments, excluding long-term U.S. government securities and short-term obligations for the year ended October 31, 2009, were as follows:

Purchases	\$600,550,533
Sales	\$263,849,023

## 8. LINE OF CREDIT

The Fund participates in a \$100,000,000 unsecured, uncommitted revolving line of credit (LOC) agreement with PNC Bank. The LOC was made available for extraordinary or emergency purposes, primarily for financing redemption payments. Borrowings are charged interest at a rate offered to the Fund by PNC Bank at the time of the borrowing. As of October 31, 2009, there were no outstanding loans. During the year ended October 31, 2009, the Fund did not utilize the LOC.

## **9. INTERFUND LENDING**

Pursuant to an Exemptive Order issued by the Securities and Exchange Commission (SEC), the Fund, along with other funds advised by subsidiaries of Federated Investors, Inc., may participate in an interfund lending program. This program provides an alternative credit facility allowing the Fund to borrow from other participating affiliated funds. As of October 31, 2009, there were no outstanding loans. During the year ended October 31, 2009, the program was not utilized.

## **10. LEGAL PROCEEDINGS**

Since October 2003, Federated Investors, Inc. and related entities (collectively, "Federated"), and various Federated funds (Federated Funds) have been named as defendants in several class action lawsuits now pending in the United States District Court for the District of Maryland. The lawsuits were purportedly filed on behalf of people who purchased, owned and/or redeemed shares of Federated-sponsored mutual funds during specified periods beginning November 1, 1998. The suits are generally similar in alleging that Federated engaged in illegal and improper trading practices including market timing and late trading in concert with certain institutional traders, which allegedly caused financial injury to the mutual fund shareholders. These lawsuits began to be filed shortly after Federated's first public announcement that it had received requests for information on shareholder trading activities in the Federated Funds from the SEC, the Office of the New York State Attorney General (NYAG) and other authorities. In that regard, on November 28, 2005, Federated announced that it had reached final settlements with the SEC and the NYAG with respect to those matters. As Federated previously reported in 2004, it has already paid approximately \$8.0 million to certain funds as determined by an independent consultant. As part of these settlements, Federated agreed to pay for the benefit of fund shareholders additional disgorgement and a civil money penalty in the aggregate amount of an additional \$72 million. Federated entities have also been named as defendants in several additional lawsuits that are now pending in the United States District Court for the Western District of Pennsylvania, alleging, among other things, excessive advisory and Rule 12b-1 fees. The Board of the Federated Funds retained the law firm of Dickstein Shapiro LLP to represent the Federated Funds in these lawsuits. Federated and the Federated Funds and their respective counsel have been defending this litigation, and none of the Federated Funds remains a defendant in any of the lawsuits (though some could potentially receive any recoveries as nominal defendants). Additional lawsuits based upon similar allegations may be filed in the future. The potential impact of these lawsuits, all of which seek unquantified damages, attorneys' fees and expenses, and future potential similar suits is uncertain. Although we do not believe that these lawsuits will have a material adverse effect on the Federated Funds, there can be no assurance that these suits, the ongoing adverse publicity and/or other developments resulting from the regulatory investigations will not result in increased Federated Fund redemptions, reduced sales of Federated Fund shares or other adverse consequences for the Federated Funds.

## **11. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 24, 2009, the date the financial statements were issued, and determined that no events have occurred that require additional disclosure.

## **12. FEDERAL TAX INFORMATION (UNAUDITED)**

For the fiscal year ended October 31, 2009, 100% of total ordinary income (including short-term capital gain) distributions made by the Fund are qualifying dividends which may be subject to a maximum tax rate of 15%, as provided for by the Jobs and Growth Tax Relief Act of 2003. Complete information is reported in conjunction with the reporting of your distributions on Form 1099-DIV.

Of the ordinary income (including short-term capital gain) distributions made by the Fund during the year ended October 31, 2009, 91.60% qualify for the dividend received deduction available to corporate shareholders.

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

## **TO THE BOARD OF TRUSTEES OF FEDERATED EQUITY FUNDS AND SHAREHOLDERS OF FEDERATED STRATEGIC VALUE FUND:**

We have audited the accompanying statement of assets and liabilities of Federated Strategic Value Fund (the “Fund”), one of the portfolios constituting Federated Equity Funds, including the portfolio of investments, as of October 31, 2009, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund’s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2009, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Federated Strategic Value Fund, a portfolio of Federated Equity Funds, at October 31, 2009, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

Boston, Massachusetts  
December 24, 2009

## BOARD OF TRUSTEES AND TRUST OFFICERS

The Board is responsible for managing the Trust's business affairs and for exercising all the Trust's powers except those reserved for the shareholders. The following tables give information about each Board member and the senior officers of the Fund. Where required, the tables separately list Board members who are "interested persons" of the Fund (i.e., "Interested" Board members) and those who are not (i.e., "Independent" Board members). Unless otherwise noted, the address of each person listed is Federated Investors Tower, 1001 Liberty Avenue, Pittsburgh, PA 15222. The address of all Independent Board members listed is 4000 Ericsson Drive, Warrendale, PA 15086-7561; Attention: Mutual Fund Board. As of December 31, 2008, the Trust comprised ten portfolios, and the Federated Fund Complex consisted of 40 investment companies (comprising 149 portfolios). Unless otherwise noted, each Officer is elected annually. Unless otherwise noted, each Board member oversees all portfolios in the Federated Fund Complex and serves for an indefinite term. The Fund's Statement of Additional Information includes additional information about Trust Trustees and is available, without charge and upon request, by calling 1-800-341-7400.

### INTERESTED TRUSTEES BACKGROUND

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**Name**

**Birth Date**

**Positions Held with Trust  
Date Service Began**

**Principal Occupation(s) for Past Five Years,  
Other Directorships Held and Previous Position(s)**

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**John F. Donahue\***

Birth Date: July 28, 1924

TRUSTEE

Began serving: April 1984

**Principal Occupations:** Director or Trustee of the Federated Fund Complex; Chairman and Director, Federated Investors, Inc.; Chairman of the Federated Fund Complex's Executive Committee.

**Previous Positions:** Chairman of the Federated Fund Complex; Trustee, Federated Investment Management Company; Chairman and Director, Federated Investment Counseling.

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**J. Christopher Donahue\***

Birth Date: April 11, 1949

PRESIDENT AND TRUSTEE

Began serving: January 2000

**Principal Occupations:** Principal Executive Officer and President of the Federated Fund Complex; Director or Trustee of some of the Funds in the Federated Fund Complex; President, Chief Executive Officer and Director, Federated Investors, Inc.; Chairman and Trustee, Federated Investment Management Company; Trustee, Federated Investment Counseling; Chairman and Director, Federated Global Investment Management Corp.; Chairman, Federated Equity Management Company of Pennsylvania and Passport Research, Ltd. (investment advisory subsidiary of Federated); Trustee, Federated Shareholder Services Company; Director, Federated Services Company.

**Previous Positions:** President, Federated Investment Counseling; President and Chief Executive Officer, Federated Investment Management Company, Federated Global Investment Management Corp. and Passport Research, Ltd.

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\* *Family relationships and reasons for "interested" status: John F. Donahue is the father of J. Christopher Donahue; both are "interested" due to their beneficial ownership of shares of Federated Investors, Inc. and the positions they hold with Federated and its subsidiaries.*

## INDEPENDENT TRUSTEES BACKGROUND

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**Name**

**Birth Date**

**Positions Held with Trust  
Date Service Began**

**Principal Occupation(s) for Past Five Years,  
Other Directorships Held and Previous Position(s)**

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**John T. Conroy, Jr., Ph.D.**

Birth Date: June 23, 1937

TRUSTEE

Began serving: November 1991

**Principal Occupations:** Director or Trustee of the Federated Fund Complex; Chairman of the Board, Investment Properties Corporation; Partner or Trustee in private real estate ventures in Southwest Florida; Assistant Professor in Theology, Blessed Edmund Rice School for Pastoral Ministry.

**Previous Positions:** President, Investment Properties Corporation; Senior Vice President, John R. Wood and Associates, Inc., Realtors; President, Naples Property Management, Inc. and Northgate Village Development Corporation.

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**Nicholas P. Constantakis**

Birth Date: September 3, 1939

TRUSTEE

Began serving: February 1998

**Principal Occupation:** Director or Trustee of the Federated Fund Complex.

**Other Directorship Held:** Director and Chairman of the Audit Committee, Michael Baker Corporation (architecture, engineering and construction services).

**Previous Position:** Partner, Andersen Worldwide SC.

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**John F. Cunningham**

Birth Date: March 5, 1943

TRUSTEE

Began serving: January 1999

**Principal Occupation:** Director or Trustee of the Federated Fund Complex.

**Other Directorships Held:** Chairman, President and Chief Executive Officer, Cunningham & Co., Inc. (strategic business consulting); Trustee Associate, Boston College.

**Previous Positions:** Director, Redgate Communications and EMC Corporation (computer storage systems); Chairman of the Board and Chief Executive Officer, Computer Consoles, Inc.; President and Chief Operating Officer, Wang Laboratories; Director, First National Bank of Boston; Director, Apollo Computer, Inc.

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**Maureen Lally-Green**

Birth Date: July 5, 1949

TRUSTEE

Began serving: August 2009

**Principal Occupations:** Director or Trustee of the Federated Fund Complex; Director, Office of Church Relations, Diocese of Pittsburgh; Adjunct Professor of Law, Duquesne University School of Law.

**Other Directorships Held:** Director, Auberle; Trustee St. Francis University; Director, Ireland Institute of Pittsburgh; Director, UPMC Mercy Hospital; Regent, St. Vincent Seminary; Director, Epilepsy Foundation of Western and Central Pennsylvania; Director, Saint Thomas More Society, Allegheny County; Director, Carlow University.

**Previous Position:** Pennsylvania Superior Court Judge.

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<b>Name</b> <b>Birth Date</b> <b>Positions Held with Trust</b> <b>Date Service Began</b>	<b>Principal Occupation(s) for Past Five Years,</b> <b>Other Directorships Held and Previous Position(s)</b>
<b>Peter E. Madden</b> Birth Date: March 16, 1942 TRUSTEE Began serving: November 1991	<b>Principal Occupation:</b> Director or Trustee and Chairman of the Board of the Federated Fund Complex.  <b>Other Directorship Held:</b> Board of Overseers, Babson College.  <b>Previous Positions:</b> Representative, Commonwealth of Massachusetts General Court; President, Chief Operating Officer and Director, State Street Bank and Trust Company and State Street Corporation (retired); Director, VISA USA and VISA International; Chairman and Director, Massachusetts Bankers Association; Director, Depository Trust Corporation; Director, The Boston Stock Exchange.
<b>Charles F. Mansfield, Jr.</b> Birth Date: April 10, 1945 TRUSTEE Began serving: January 1999	<b>Principal Occupations:</b> Director or Trustee and Chairman of the Audit Committee of the Federated Fund Complex; Management Consultant.  <b>Previous Positions:</b> Chief Executive Officer, PBTC International Bank; Partner, Arthur Young & Company (now Ernst & Young LLP); Chief Financial Officer of Retail Banking Sector, Chase Manhattan Bank; Senior Vice President, HSBC Bank USA (formerly, Marine Midland Bank); Vice President, Citibank; Assistant Professor of Banking and Finance, Frank G. Zarb School of Business, Hofstra University; Executive Vice President DVC Group, Inc. (marketing, communications and technology).
<b>R. James Nicholson</b> Birth Date: February 4, 1938 TRUSTEE Began serving: January 2008	<b>Principal Occupations:</b> Director or Trustee of the Federated Fund Complex; Senior Counsel, Brownstein Hyatt Farber Schrek, P.C.; Former Secretary of the U.S. Dept. of Veterans Affairs; Former U.S. Ambassador to the Holy See; Former Chairman of the Republican National Committee.  <b>Other Directorships Held:</b> Director, Horatio Alger Association; Director, The Daniels Fund.  <b>Previous Positions:</b> Colonel, U.S. Army Reserve; Partner, Calkins, Kramer, Grimshaw and Harring, P.C.; General Counsel, Colorado Association of Housing and Building; Chairman and CEO, Nicholson Enterprises, Inc. (real estate holding company); Chairman and CEO, Renaissance Homes of Colorado.
<b>Thomas M. O'Neill</b> Birth Date: June 14, 1951 TRUSTEE Began serving: October 2006	<b>Principal Occupations:</b> Director or Trustee of the Federated Fund Complex; Managing Director and Partner, Navigator Management Company, L.P. (investment and strategic consulting).  <b>Other Directorships Held:</b> Board of Overseers, Children's Hospital of Boston; Visiting Committee on Athletics, Harvard College.  <b>Previous Positions:</b> Chief Executive Officer and President, Managing Director and Chief Investment Officer, Fleet Investment Advisors; President and Chief Executive Officer, Aeltus Investment Management, Inc.; General Partner, Hellman, Jordan Management Co., Boston, MA; Chief Investment Officer, The Putnam Companies, Boston, MA; Credit Analyst and Lending Officer, Fleet Bank; Director and Consultant, EZE Castle Software (investment order management software); Director, Midway Pacific (lumber).

<b>Name</b>	<b>Principal Occupation(s) for Past Five Years, Other Directorships Held and Previous Position(s)</b>
<b>Birth Date</b> <b>Positions Held with Trust</b> <b>Date Service Began</b>  <b>John S. Walsh</b> Birth Date: November 28, 1957 TRUSTEE Began serving: January 1999	<b>Principal Occupations:</b> Director or Trustee of the Federated Fund Complex; President and Director, Heat Wagon, Inc. (manufacturer of construction temporary heaters); President and Director, Manufacturers Products, Inc. (distributor of portable construction heaters); President, Portable Heater Parts, a division of Manufacturers Products, Inc.  <b>Previous Position:</b> Vice President, Walsh & Kelly, Inc.
<b>James F. Will</b> Birth Date: October 12, 1938 TRUSTEE Began serving: April 2006	<b>Principal Occupations:</b> Director or Trustee of the Federated Fund Complex; formerly, Vice Chancellor and President, Saint Vincent College.  <b>Other Directorships Held:</b> Trustee, Saint Vincent College; Alleghany Corporation.  <b>Previous Positions:</b> Chairman, President and Chief Executive Officer, Armco, Inc.; President and Chief Executive Officer, Cyclops Industries; President and Chief Operating Officer, Kaiser Steel Corporation.

## OFFICERS

<b>Name</b>	<b>Principal Occupation(s) for Past Five Years and Previous Position(s)</b>
<b>Birth Date</b> <b>Address</b> <b>Positions Held with Trust</b> <b>Date Service Began</b>  <b>John W. McGonigle</b> Birth Date: October 26, 1938 EXECUTIVE VICE PRESIDENT AND SECRETARY Began serving: April 1984	<b>Principal Occupations:</b> Executive Vice President and Secretary of the Federated Fund Complex; Vice Chairman, Executive Vice President, Secretary and Director, Federated Investors, Inc.  <b>Previous Positions:</b> Trustee, Federated Investment Management Company and Federated Investment Counseling; Director, Federated Global Investment Management Corp., Federated Services Company and Federated Securities Corp.
<b>Richard A. Novak</b> Birth Date: December 25, 1963 TREASURER Began serving: January 2006	<b>Principal Occupations:</b> Principal Financial Officer and Treasurer of the Federated Fund Complex; Senior Vice President, Federated Administrative Services; Financial and Operations Principal for Federated Securities Corp., Edgewood Services, Inc. and Southpointe Distribution Services, Inc.  <b>Previous Positions:</b> Controller of Federated Investors, Inc.; Vice President, Finance of Federated Services Company; held various financial management positions within The Mercy Hospital of Pittsburgh; Auditor, Arthur Andersen & Co.
<b>Richard B. Fisher</b> Birth Date: May 17, 1923 VICE PRESIDENT Began serving: April 1984	<b>Principal Occupations:</b> Vice Chairman or Vice President of some of the Funds in the Federated Fund Complex; Vice Chairman, Federated Investors, Inc.; Chairman, Federated Securities Corp.  <b>Previous Positions:</b> President and Director or Trustee of some of the Funds in the Federated Fund Complex; Executive Vice President, Federated Investors, Inc.; Director and Chief Executive Officer, Federated Securities Corp.

Name	Birth Date	Address	Positions Held with Trust Date Service Began	Principal Occupation(s) for Past Five Years and Previous Position(s)
<b>Brian P. Bouda</b>	Birth Date: February 28, 1947	CHIEF COMPLIANCE OFFICER AND SENIOR VICE PRESIDENT Began serving: August 2004	<b>Principal Occupations:</b> Senior Vice President and Chief Compliance Officer of the Federated Fund Complex; Vice President and Chief Compliance Officer of Federated Investors, Inc. and Chief Compliance Officer of its subsidiaries. Mr. Bouda joined Federated in 1999 and is a member of the American Bar Association and the State Bar Association of Wisconsin.	
<b>Stephen F. Auth</b>	Birth Date: September 3, 1956	450 Lexington Avenue Suite 3700 New York, NY 10017-3943 CHIEF INVESTMENT OFFICER Began serving: November 2002	<b>Principal Occupations:</b> Mr. Auth is Chief Investment Officer of this Fund and various other Funds in the Federated Fund Complex; Executive Vice President, Federated Investment Counseling, Federated Global Investment Management Corp. and Federated Equity Management Company of Pennsylvania.  <b>Previous Positions:</b> Executive Vice President, Federated Investment Management Company, and Passport Research, Ltd. (investment advisory subsidiary of Federated); Senior Vice President, Global Portfolio Management Services Division; Senior Vice President, Federated Investment Management Company and Passport Research, Ltd.; Senior Managing Director and Portfolio Manager, Prudential Investments.	
<b>Lawrence Auriana</b>	Birth Date: January 8, 1944	140 East 45th Street New York, NY 10017 VICE PRESIDENT Began serving: November 2001	<b>Principal Occupations:</b> Lawrence Auriana is Vice President of the Trust. Mr. Auriana joined Federated in April 2001 as Co-Head of Investments/ Federated Kaufmann. From August 1984 to April 2001, Mr. Auriana was President and Treasurer of Edgemont Asset Management Corp., and Chairman of the Board and Portfolio Manager to The Kaufmann Fund, Inc. (predecessor to the Federated Kaufmann Fund). Mr. Auriana earned a B.S. in economics from Fordham University and has been engaged in the securities business since 1965.	
<b>Walter C. Bean</b>	Birth Date: June 22, 1945	VICE PRESIDENT Began serving: November 2006	<b>Principal Occupations:</b> Walter C. Bean has been the Fund's Portfolio Manager since inception. Walter C. Bean is Vice President of the Trust. Mr. Bean is a Senior Vice President, Senior Portfolio Manager and the Head of the Equity Income Management Team of the Fund's Adviser. Mr. Bean joined Federated in 2000. His previous associations included: various investment management and research positions with C.S. McKee & Company, First Chicago Investment Advisors, CIGNA Investment Advisors and Mellon Bank. Mr. Bean earned a Bachelors Degree in Business Administration from Ohio University and an M.B.A. from the Pennsylvania State University. Mr. Bean is a Chartered Financial Analyst and has 40 years of investment experience.	
<b>Hans P. Utsch</b>	Birth Date: July 3, 1936	140 East 45th Street New York, NY 10017 VICE PRESIDENT Began serving: November 2001	<b>Principal Occupations:</b> Hans P. Utsch is Vice President of the Trust. Mr. Utsch joined Federated in April 2001 as Co-Head of Investments/ Federated Kaufmann. From August 1984 to April 2001, Mr. Utsch was Chairman of the Board and Secretary of Edgemont Asset Management Corp., and President and Portfolio Manager to The Kaufmann Fund, Inc. (predecessor to the Federated Kaufmann Fund). Mr. Utsch graduated from Amherst College and holds an M.B.A. from Columbia University. He has been engaged in the securities business since 1962.	

# EVALUATION AND APPROVAL OF ADVISORY CONTRACT – MAY 2009

## **FEDERATED STRATEGIC VALUE FUND (THE “FUND”)**

The Fund’s Board reviewed the Fund’s investment advisory contract at meetings held in May 2009. The Board’s decision regarding the contract reflects the exercise of its business judgment on whether to continue the existing arrangements.

In this connection, the Federated funds’ Board had previously appointed a Senior Officer, whose duties include specified responsibilities relating to the process by which advisory fees are to be charged to a Federated fund. The Senior Officer has the authority to retain consultants, experts, or staff as may be reasonably necessary to assist in the performance of his duties, reports directly to the Board, and may be terminated only with the approval of a majority of the independent members of the Board. The Senior Officer prepared and furnished to the Board an independent, written evaluation that covered topics discussed below. The Board considered that evaluation, along with other information, in deciding to approve the advisory contract.

During its review of the contract, the Board considered compensation and benefits received by the Adviser. This included the fees received for services provided to the Fund by other entities in the Federated organization and research services received by the Adviser from brokers that execute Federated fund trades, as well as advisory fees. The Board is also familiar with and considered judicial decisions concerning allegedly excessive investment advisory fees, which have indicated that the following factors may be relevant to an Adviser’s fiduciary duty with respect to its receipt of compensation from a fund: the nature and quality of the services provided by the Adviser, including the performance of the fund; the Adviser’s cost of providing the services; the extent to which the Adviser may realize “economies of scale” as a fund grows larger; any indirect benefits that may accrue to the Adviser and its affiliates as a result of the Adviser’s relationship with a fund; performance and expenses of comparable funds; and the extent to which the independent Board members are fully informed about all facts the Board deems relevant bearing on the Adviser’s services and fees. The Board further considered management fees (including any components thereof) charged to institutional and other clients of the Adviser for what might be viewed as like services, and the cost to the Adviser and its affiliates of supplying services pursuant to the management fee agreements, excluding any intra-corporate profit and profit margins of the Adviser and its affiliates for supplying such services. The Board was aware of these factors and was guided by them in its review of the Fund’s advisory contract to the extent it considered them to be appropriate and relevant, as discussed further below.

The Board considered and weighed these circumstances in light of its substantial accumulated experience in governing the Fund and working with Federated on matters relating to the Federated funds, and was assisted in its deliberations by independent legal counsel. Throughout the year, the Board has requested and received substantial and detailed information about the Fund and the Federated organization that was in addition to the extensive materials that comprise and accompany the Senior Officer's evaluation. Federated provided much of this information at each regular meeting of the Board, and furnished additional reports in connection with the particular meeting at which the Board's formal review of the advisory contract occurred. Between regularly scheduled meetings, the Board also received information on particular matters as the need arose. Thus, the Board's consideration of the advisory contract included review of the Senior Officer's evaluation, accompanying data and additional reports covering such matters as: the Adviser's investment philosophy, revenue, profitability, personnel and processes; investment and operating strategies; the Fund's short- and long-term performance (in absolute terms, both on a gross basis and net of expenses, as well as in relationship to its particular investment program and certain competitor or "peer group" funds and/or other benchmarks, as appropriate), and comments on the reasons for performance; the Fund's investment objectives; the Fund's expenses (including the advisory fee itself and the overall expense structure of the Fund, both in absolute terms and relative to similar and/or competing funds, with due regard for contractual or voluntary expense limitations); the use and allocation of brokerage commissions derived from trading the Fund's portfolio securities (if any); and the nature, quality and extent of the advisory and other services provided to the Fund by the Adviser and its affiliates. The Board also considered the preferences and expectations of Fund shareholders and their relative sophistication; the continuing state of competition in the mutual fund industry and market practices; the range of comparable fees for similar funds in the mutual fund industry; the Fund's relationship to the Federated family of funds which include a comprehensive array of funds with different investment objectives, policies and strategies which are available for exchange without the incurrence of additional sales charges; compliance and audit reports concerning the Federated funds and the Federated companies that service them (including communications from regulatory agencies), as well as Federated's responses to any issues raised therein; and relevant developments in the mutual fund industry and how the Federated funds and/or Federated are responding to them. The Board's evaluation process is evolutionary. The criteria considered and the emphasis placed on relevant criteria change in recognition of changing circumstances in the mutual fund marketplace.

With respect to the Fund's performance and expenses in particular, the Board has found the use of comparisons to other mutual funds with comparable investment programs to be particularly useful, given the high degree of competition in the mutual fund business. The Board focused on comparisons

with other similar mutual funds more heavily than non-mutual fund products or services because it is believed that they are more relevant. For example, other mutual funds are the products most like the Fund, they are readily available to Fund shareholders as alternative investment vehicles, and they are the type of investment vehicle in fact chosen and maintained by the Fund's investors. The range of their fees and expenses therefore appears to be a generally reliable indication of what consumers have found to be reasonable in the precise marketplace in which the Fund competes. The Fund's ability to deliver competitive performance when compared to its peer group was a useful indicator of how the Adviser is executing the Fund's investment program, which in turn assisted the Board in reaching a conclusion that the nature, extent, and quality of the Adviser's investment management services were such as to warrant continuation of the advisory contract. In this regard, the Senior Officer has reviewed Federated's fees for providing advisory services to products outside the Federated family of funds (e.g., institutional and separate accounts). He concluded that mutual funds and institutional accounts are inherently different products. Those differences include, but are not limited to, different types of targeted investors; being subject to different laws and regulations; different legal structures; different average account sizes; different associated costs; different portfolio management techniques made necessary by different cash flows; and portfolio manager time spent in review of securities pricing. The Senior Officer did not consider these fee schedules to be determinative in judging the appropriateness of mutual fund advisory contracts.

The Senior Officer reviewed reports compiled by Federated, using data supplied by independent fund ranking organizations, regarding the performance of, and fees charged by, other mutual funds, noting his view that comparisons to fund peer groups are highly important in judging the reasonableness of proposed fees.

For both the one- and three-year periods covered by the report, the Fund's performance was above the median of the relevant peer group.

The Board also received financial information about Federated, including reports on the compensation and benefits Federated derived from its relationships with the Federated funds. These reports covered not only the fees under the advisory contracts, but also fees received by Federated's subsidiaries for providing other services to the Federated funds under separate contracts (e.g., for serving as the Federated funds' administrator). The reports also discussed any indirect benefit Federated may derive from its receipt of research services from brokers who execute Federated fund trades. In addition, the Board considered the fact that, in order for a fund to be competitive in the marketplace, Federated and its affiliates frequently waived fees and/or reimbursed expenses and have disclosed to fund investors and/or indicated to the Board their intention to do so in the future, where appropriate. Moreover, the Board receives regular reports regarding the institution or elimination of these voluntary waivers.

Federated furnished reports, requested by the Senior Officer, that reported revenues on a fund-by-fund basis and made estimates of the allocation of expenses on a fund-by-fund basis, using allocation methodologies specified by the Senior Officer. The Senior Officer noted that, although they may apply consistent allocation processes, the inherent difficulties in allocating costs (and the unavoidable arbitrary aspects of that exercise) and the lack of consensus on how to allocate those costs may render such allocation reports unreliable. The allocation reports were considered in the analysis by the Board but were determined to be of limited use.

The Board and the Senior Officer also reviewed a report compiled by Federated comparing profitability information for Federated to other publicly held fund management companies. In this regard, the Senior Officer noted the limited availability of such information, but nonetheless concluded that Federated's profit margins did not appear to be excessive and the Board agreed.

The Senior Officer's evaluation also discussed the notion of possible realization of "economies of scale" as a fund grows larger. The Board considered in this regard that the Adviser has made significant and long-term investments in areas that support all of the Federated funds, such as personnel and processes for the portfolio management, compliance, and risk management functions; and systems technology; and that the benefits of these efforts (as well as any economies, should they exist) were likely to be enjoyed by the fund complex as a whole. Finally, the Board also noted the absence of any applicable regulatory or industry guidelines on this subject, which (as discussed in the Senior Officer's evaluation) is compounded by the lack of any common industry practice or general pattern with respect to structuring fund advisory fees with "breakpoints" that serve to reduce the fee as the fund attains a certain size. The Senior Officer did not recommend institution of breakpoints in pricing Federated's fund advisory services at this time.

It was noted in the materials for the Board meeting that for the period covered by the report, the Fund's investment advisory fee, after waivers and expense reimbursements, if any, was below the median of the relevant peer group. The Board reviewed the fees and other expenses of the Fund with the Adviser and was satisfied that the overall expense structure of the Fund remained competitive.

The Senior Officer's evaluation noted his belief that the information and observations contained in his evaluation supported a finding that the proposed management fees are reasonable, and that Federated appeared to provide appropriate administrative services to the Fund for the fees paid. Under these circumstances, no changes were recommended to, and no objection was raised to, the continuation of the Fund's advisory contract. The Board concluded that the nature, quality and scope of services provided the Fund by the Adviser and its affiliates were satisfactory.

In its decision to continue an existing investment advisory contract, the Board was mindful of the potential disruptions of the Fund's operations and various risks, uncertainties and other effects that could occur as a result of a decision to terminate or not renew an advisory contract. In particular, the Board recognized that many shareholders have invested in the Fund on the strength of the Adviser's industry standing and reputation and with the expectation that the Adviser will have a continuing role in providing advisory services to the Fund. Thus, the Board's approval of the advisory contract reflected the fact that it is the shareholders who have effectively selected the Adviser by virtue of having invested in the Fund.

The Board based its decision to approve the advisory contract on the totality of the circumstances and relevant factors and with a view to past and future long-term considerations. Not all of the factors and considerations identified above were necessarily relevant to the Fund, nor did the Board consider any one of them to be determinative. With respect to the factors that were relevant, the Board's decision to approve the contract reflects its determination that Federated's performance and actions provided a satisfactory basis to support the decision to continue the existing arrangements.

## VOTING PROXIES ON FUND PORTFOLIO SECURITIES

A description of the policies and procedures that the Fund uses to determine how to vote proxies, if any, relating to securities held in the Fund's portfolio is available, without charge and upon request, by calling 1-800-341-7400. A report on "Form N-PX" of how the Fund voted any such proxies during the most recent 12-month period ended June 30 is available from Federated's Web site at FederatedInvestors.com. To access this information from the "Products" section of the Web site, click on the "Prospectuses and Regulatory Reports" link under "Related Information," then select the appropriate link opposite the name of the Fund; or select the name of the Fund and from the Fund's page, click on the "Prospectuses and Regulatory Reports" link. Form N-PX filings are also available at the SEC's Web site at [www.sec.gov](http://www.sec.gov).

## QUARTERLY PORTFOLIO SCHEDULE

The Fund files with the SEC a complete schedule of its portfolio holdings, as of the close of the first and third quarters of its fiscal year, on "Form N-Q." These filings are available on the SEC's Web site at [www.sec.gov](http://www.sec.gov) and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. (Call 1-800-SEC-0330 for information on the operation of the Public Reference Room.) You may also access this information from the "Products" section of Federated's Web site at FederatedInvestors.com by clicking on "Portfolio Holdings" under "Related Information," then selecting the appropriate link opposite the name of the Fund; or select the name of the Fund and from the Fund's page, click on the "Portfolio Holdings" link.

# NOTES

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Mutual funds are not bank deposits or obligations, are not guaranteed by any bank and are not insured or guaranteed by the U.S. government, the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency. Investment in mutual funds involves investment risk, including the possible loss of principal.

This Report is authorized for distribution to prospective investors only when preceded or accompanied by the Fund's Prospectus, which contains facts concerning its objective and policies, management fees, expenses and other information.



WORLD-CLASS INVESTMENT MANAGER<sup>®</sup>

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Federated Investors Funds  
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