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U.S. COMMODITY FUTURES TRADING COMMISSION
Three Lafayette Centre
1155 21st Street, NW, Washington, DC 20581
Telephone: (202) 418-5430
Facsimile: (202) 418-5536

Division of Clearing and
Intermediary Oversight

MEMORANDUM

TO: Public Comment File

FROM: Jon DeBord

DATE: March 31, 2010

SUBJECT: Meeting with Federated Investors, Inc. relating to Advance Notice of Proposed Rulemaking for Regulations 1.25 and 30.7 (74 FR 23962)

On March 29, 2010, members of the CFTC's Division of Clearing and Intermediary Oversight met with Eugene Maloney, Executive Vice President and Corporate Counsel of Federated Investors, Inc. (Federated), to discuss Federated's positions on possible Rule 1.25 rule amendments with regards to money market mutual funds (MMMFs). Federated expressed its views on the stability of MMMFs and likely industry responses to various potential 1.25 amendments. Prior to the meeting, Mr. Maloney provided the attached documents. Present from the CFTC were Ananda Radhakrishnan, John Lawton, Tom Smith, Phyllis Dietz, Sarah Josephson, Chul Park and Jon DeBord.

Attachments

Federated Investors, Inc.
Federated Investors Tower
1001 Liberty Avenue
Pittsburgh, PA 15222-3779

412-288-1941 Phone
412-992-3008 Fax
gmaloney@federatedinv.com

Eugene F. Maloney, Esq.
Executive Vice President

Federated
WORLD-CLASS INVESTMENT MANAGER ®

2010 MAR 25 A 11:58

March 24, 2010

Phyllis Dietz, Counsel
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Dear Ms. Dietz:

Thank you for taking the time to visit by phone with me this morning on our interest in having money market mutual funds continue to be eligible under Rule 1.25 of the CFTC. As I made mention, I worked successfully with Andy Norton at The Options Clearing Corporation ("the OCC") in responding to certain requirements that they felt money market mutual funds should adhere to in order to constitute eligible collateral under their rules. A copy of a bulletin issued by the OCC setting forth the eligibility of the requirements for money market mutual funds is enclosed. Please note, in particular, the information set forth under "Redemption." Because of the necessity of a fund to waive certain rights regarding the availability of redemption proceeds, only those large money fund sponsors who regularly work with institutional investors chose to comply with the requirements of the OCC.

We are aware of concerns expressed by the CFTC with respect to recent amendments to Rule 2a-7 under the Investment Company Act having to do with the suspension of redemptions given the occurrence of certain conditions. More specifically, as you are aware, new Rule 22e-3 permits a money fund to suspend redemptions and payments of redemption proceeds if (a) the fund's board determines that the deviation between the fund's amortized cost price per share and the market-based net asset value per share may result in material dilution or other unfair results, and (b) the board irrevocably approves the liquidation of the fund. Being mindful of the concerns of the CFTC about liquidity but at the same time being sensitive to the permissive nature of new Rule 22e-3 and the responsibilities of a fund's board, outside counsel to our firm has suggested the following disclosure in the prospectuses of Prime Obligations Fund ("POF") and Government Obligations Fund ("GOF"), two money market mutual funds sponsored by Federated Investors that are currently eligible and used by members under Rule 1.25:

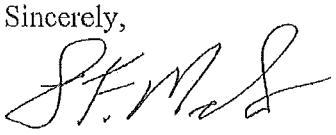
> While the Fund has no current intention to do so, [GOF] [POF] may suspend the right of redemption and delay the payment of redemption proceeds as a part of the liquidation of the Fund. Prior to suspending the redemptions, the Fund's Board must notify the SEC of its intent to liquidate and suspend redemptions.

On a historic note, when the undersigned was responsible for qualifying shares of our funds for sale in various states, oftentimes prospectus language would be inconsistent with a rule or statute under which securities activities could be conducted on a state-by-state basis. It was not uncommon for us to provide an undertaking not to exercise a reserved right as a condition precedent to doing business in a particular state. The language I have suggested with respect to Rule 22e-3 reflects such an approach.

We have evaluated the "circuit breakers" in place for POF and GOF relating to liquidity; I thought it might be useful to share them with you and your colleagues. (See enclosed "Remedies That Will be Relied Upon Prior to Suspension of Redemptions: Why Rule 22e-3 Will be the Option of Last Resort.") The purpose is to illustrate sources of liquidity for large institutional funds, such as POF and GOF, prior to a fund's board even considering invoking the provisions of Rule 22e-3.

I have taken the liberty of enclosing a description of my responsibilities at Federated along with the fact sheets on our two presently eligible money market mutual funds (POF and GOF) and their sponsor, Federated Investors. I look forward to meeting with you and your colleagues.

Sincerely,



Eugene F. Maloney
Executive Vice President and
Corporate Counsel

lmc

Enclosures:
OCC Bulletin; OCC press release
Remedies/bullet points
EFM – bio
Fact sheets – POF, GOF
Federated Investors info

BULLETIN

The Options Clearing Corporation Volume 29, Number 1 January 18, 2002

Rule 604 specifies the forms of collateral that may be deposited as margin. Permitted forms include cash, Government securities, letters of credit, and certain equity and debt securities.6 OCC regularly reviews these forms of collateral for suitability, with the intent of addressing Clearing Members' desire for a diverse combination of readily available and cost-effective forms of collateral while ensuring that collateral is limited to instruments that are relatively stable in value and easily converted to cash. OCC believes that shares in certain money market funds meet these criteria and that it is appropriate for OCC to expand its categories of acceptable collateral to include such instruments.

OCC believes that the professional asset management, liquidity, and stable principal value typically associated with money market funds make shares in such funds an attractive collateral alternative for all OCC clearing accounts. As a result of recent amendments to the regulations of the Commodity Futures Trading Commission (the "CFTC"), Clearing Members that are registered as futures commission merchants are now permitted to invest customer funds of their futures customers in money market fund shares.7 Accordingly, Clearing Members want to be able to hypothecate shares in such funds as margin for their "non-proprietary" cross-margining accounts. OCC believes that such deposits are appropriate collateral not only for cross-margining accounts, but for all accounts.

Requirements for Eligibility of Funds

OCC proposes to define acceptable money market funds as those complying with SEC Rule 2a-7 under the Investment Company Act of 1940 (the "ICA"), subject to certain additional criteria. The ICA sets the standards by which mutual funds and other investment vehicles operate, and Rule 2a-7 thereunder requires a qualifying money market fund to meet certain portfolio maturity, quality and diversification criteria. Instruments which may qualify as permitted investments for money market funds typically include: U.S. Treasury securities, repurchase agreements, Federal agency securities, commercial paper, certificates of deposit, time deposits, corporate notes, asset-backed securities, and municipal securities. To minimize credit risk, OCC will accept only money market funds that limit their investments to "First Tier Securities" as defined in Rule 2a-7 under the ICA.8 Although certain types of instruments that qualify as First Tier Securities would not qualify to be pledged directly as margin collateral under Rule 604,9 the rating requirements and maturity prerequisites, combined with inherent diversification of the funds, is deemed to provide sufficient protection to warrant acceptance of shares of money market funds containing such instruments.

A 10% limit on stock ownership by any one investor has been included in proposed Rule 604(b)(3) to ensure a diverse group of fund investors so that the actions of any one shareholder (*e.g.*, redeeming a large number of shares) do not materially disrupt the ability of the fund to redeem shares in an orderly manner.

In order for its shares to be acceptable as margin deposits, a fund (and/or its sponsor, transfer agent, or other agents as appropriate) will be required to represent to OCC that it meets the foregoing requirements and to agree that it will continue to do so. In addition, OCC will require the fund to make certain other agreements intended to further ensure OCC's ability to convert fund shares promptly to cash if necessary.

Redemption

While the ICA generally prohibits mutual funds from suspending the right of redemption, the ICA does allow funds to postpone the payment of redemption proceeds for up to seven days in emergency situations. The ICA also allows for the suspension or postponement of redemption in certain emergency situations. In addition, while the intent of a money market fund is to redeem shares in cash, most issuers retain the right to redeem their shares in kind. In the

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6 In a rule filing currently pending with the Commission, OCC has also proposed to accept non-callable securities issued by the Federal Home Loan Mortgage Corporation (Freddie Mac) within its Reference Debt Program and securities issued by the Federal National Mortgage Association (Fannie Mae) within its Benchmark Debt Program. *See* SR-OCC-2001-04.

7 In December 2000, the CFTC amended its Regulation 1.25 to expand the range of instruments in which FCMs and clearing organizations may invest customer segregated funds to include such highly liquid instruments as money market mutual funds. *See* CFTC release at 65 FR 77993 (December 12, 2000).

8 In general, a First Tier security is a security with a remaining maturity of 397 calendar days or less that: (i) has received a short-term rating from at least two nationally recognized statistical rating organizations in the highest short-term rating category for debt obligations; (ii) is unrated but is deemed to be of comparable quality to securities identified in (i) as determined by the fund's board of directors; (iii) is issued by a registered investment company that is itself a money market fund; or (iv) is a government security.

9 For example, OCC does not currently accept Federal agency securities, commercial paper, certificates of deposit, time deposits, corporate notes, asset-backed securities or municipal securities.

BULLETIN


The Options Clearing Corporation Volume 29, Number 1 January 18, 2002

event of an in-kind redemption, the redeeming shareholder would receive portfolio securities rather than cash. Any such action would introduce a liquidation risk as well as additional costs associated with the sale of such securities.

Rule 604(b)(3)(i)(H) will require each fund to waive its rights under the ICA to delay redemption or redeem in kind. The fund must instead agree to redeem fund shares in cash not later than the business day following a redemption request by OCC, with limited exceptions for unscheduled closings of Federal Reserve Banks or the New York Stock Exchange or such other similar emergency situations as OCC might agree to. These waivers of redemption restrictions along with the next day payment requirement have been established to maintain adequate liquidity of margin collateral, but are also intended to be consistent with the redemption conditions contained in CFTC Rule 1.25. *See* CFTC Regulation 1.25(c)(5) and CFTC Interpretive Letter No. 01-31 dated April 12, 2001 (stating that funds will be deemed in compliance with Regulation 1.25(c)(5) even though they provide for delayed redemption in specified emergency situations).

Valuation

OCC will require funds to perform a net asset value computation at least once per day with the dissemination of such computation to be made available to OCC no later than 9:00AM Central Time the following day. Given the diversified nature of eligible fund investments as well as the investment duration limitations, a daily computation of net asset value appears reasonable. OCC nevertheless proposes, under proposed Rule 604(d)(4), a 2% haircut on the net asset value of fund shares. The 2% haircut was selected for consistency with the treatment of similar assets under the net capital rule. *See* Rule 15c3-1(c)(2)(vi)(D)(*1*).

OCC's Security Interest

As in the case of other securities held as collateral, OCC will require that Clearing Members give OCC a first priority perfected security interest in deposited fund shares. Because shares in money market funds are typically not issued in certificated form, ownership is established by registration of the securities on the books of the fund or its transfer agent. OCC can ordinarily obtain a perfected security interest in fund shares registered in the name of a Clearing Member by execution of the fund's standard three-party agreement among OCC, the Clearing Member and the fund or its transfer agent.

In addition, to preclude a situation whereby a Clearing Member secures its obligations to OCC with collateral managed and within the control of that Clearing Member or a related party, an association restriction is proposed in Rule 604(b)(3)(iii). This standard may be waived if the issuing institution can demonstrate that an acceptable arrangement has been made for the control of underlying portfolio investments and the processing of OCC redemption requests by a third party. This restriction is consistent with current OCC rules regarding the deposit of government securities, debt or equity issues or issuance of letters of credit as margin collateral. *See* Rule 604, Interpretation and Policy .07 and .10.

One additional point is worth noting, though not related specifically to money fund shares. The provisions formerly in Rule 604(d)(2), which require compliance with the Commission's Rule 15c3-3 when applicable, have been moved so that they apply not only to equity and debt securities but to all securities deposited as margin under Rule 604(b). A sentence has been added to require compliance with the CFTC's customer protection regime when securities are deposited in respect of futures accounts.

* * * *

The proposed rule change is consistent with the requirements of Section 17A of the Securities Exchange Act of 1934, as amended, because it enhances the efficiency of the clearing system while safeguarding funds and securities by permitting Clearing Member to collateralize their obligations to OCC with an additional form of highly liquid assets of stable value.

THE OPTIONS
CLEARING CORPORATION

#20371

TO: ALL CLEARING MEMBERS

FROM: ANDREW NAUGHTON, EXECUTIVE VICE PRESIDENT, CHIEF FINANCIAL OFFICER & TREASURER

DATE: FEBRUARY 18, 2005

SUBJECT: **EXPANDED FORMS OF MARGIN COLLATERAL**

Effective February 22, 2005 OCC will begin accepting pledges of shares in qualifying **Federated Investors, Inc.** money market funds (MMF) as margin collateral pursuant to OCC Rule 604(b)(3). The qualifying funds are as follows:

FUND NAME	CUSIP	SYMBOL
Federated Prime Obligations Fund	60934N203	POIXX
Federated Prime Cash Obligations Fund	60934N625	PCOXX
Federated Prime Management Obligations Fund	60934N112	PMOXX
Federated Government Obligations Fund	60934N104	GOIXX
Federated Treasury Obligations Fund	60934N500	TOIXX

An OCC Clearing Member desiring to pledge qualifying MMF shares to OCC must first establish an account with the issuing fund (see Federated Investors contact information below) and arrange for that issuer, through its Fast Automated Securities Transfer (FAST) agent, to deposit fund shares into its free account at the Depository Trust Company (DTC). The Clearing Member then follows the same PTS procedures for pledging any other securities held in a free position at DTC to OCC.[1]

Similarly, a partial or full release of shares unencumbered by a margin requirement may be accomplished by following the same PTS procedures currently in place for releasing any other securities from a pledge position. Once OCC has approved

[1] Eligible OCC Pledgee accounts are 981 (all securities accounts and non-customer commodity accounts) and 939 (segregated customer commodities accounts). Eligible Account Types are Customer (C), Firm (F) and Market Maker (M). Pledge Comments field should be completed as follows: 3-digit OCC Clearing Member Number, followed by backslash (/), 1 character Collateral Type for MMF (M), followed by a backslash (/), 1 character Account Type (C,F or M). Example: 999/M/C.

a release request the fund shares will be held in a free position in the Clearing Member's DTC account at which point the Clearing Member may elect to withdraw the shares through instructions to the issuer's FAST transfer agent.

No more than 5% of the total number of outstanding shares of any one fund will be accepted for deposit from a given Clearing Member. In determining whether a Clearing Member's deposit of a fund's shares exceeds the following limitation, OCC will aggregate the Clearing Member's deposit of such fund's shares across all of its accounts. MMF shares deposited by a Clearing Member will be valued by OCC at 98% of the current market value or such lower value as the Membership/Margin Committee may prescribe from time to time.

A Clearing Member may not deposit MMF shares in any fund if such fund or its sponsor controls, is controlled by, or under common control with the Clearing Member. In the case of MMF shares, a person shall be deemed to control another person if the person has an equity interest of 20% or more in such other person. In addition, MMF shares are not acceptable collateral for Cross Margin or Clearing Fund accounts.

CONTACT INFORMATION

Federated Investors Inc. - Karin Friday (412) 358-2452
OCC – Andrew Naughton (312) 322-2007
DTCC – Robin Bainlardi (212) 855-3793

Remedies That Will be Relied Upon Prior to Suspension of Redemptions: Why Rule 22e-3 Will be the Option of Last Resort

- **Lines of Credit.** The Funds participate 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. During the year ended July 31, 2009, the Funds did not utilize the LOC.

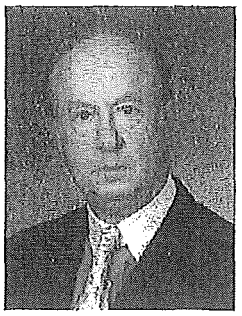
- **Interfund Lending Facility.** Pursuant to an exemptive order issued by the SEC, the Funds, along with other funds advised by subsidiaries of Federated Investors, Inc., may participate in an interfund lending program. This program provides an alternative credit facility allowing the funds to borrow from or lend money to other participating affiliated funds. As of July 31, 2009, there were no outstanding loans. During the year ended July 31, 2009, the program was not utilized.

- **Expanded Ability to Buy Out Troubled Securities.** The Money Market Fund Reform rules have expanded the circumstances under which affiliated persons of a money market fund can purchase securities from the fund. Previously, affiliates were only permitted to buy out securities that had become ineligible under Rule 2a-7. Now, affiliated persons may purchase any security out of a money market fund, so long as the affiliated person pays a purchase price, in cash, that is equal to the greater of the security's amortized cost or its market value, including accrued interest.

- **Obtain Capital Support from Investment Adviser or Other Affiliate.** "All but one of the funds that were exposed to losses from SIV and Lehman Brothers securities obtained support of some type from their advisers or other affiliated persons, which absorbed the losses or provided a guarantee . . . to prevent the fund from breaking a buck." Money Market Fund Reform, Rel. IC-29132 at p.5.

- **Industry-Developed Liquidity Facility.** The ICI and other industry participants are working to finalize a plan for a liquidity facility "to act as a backstop for money-market funds facing liquidity issues. As envisioned, the facility would be a state-chartered bank or trust company, organized and capitalized by the prime money-market fund industry. . . The facility would be managed and governed in accordance with applicable banking laws." (Remarks of Paul Schott Stevens – 2010 ICI Mutual Funds Conference).

- **Suspension of Redemptions (Rule 22e-3).** A registered money market fund can rely on Rule 22e-3 to suspend redemptions only after it has irrevocably decided (and approved) that the liquidation of the fund is the only available option to mitigate the potential harm to its shareholders caused by a deviation between the fund's amortized cost per share and its current NAV.



EUGENE F. MALONEY

Executive Vice President and
Corporate Counsel
Federated Investors, Inc.
Pittsburgh, PA

Mr. Maloney is Executive Vice President and Corporate Counsel of Federated Investors, Inc., a member of the Executive Committee, and has been employed by the firm for thirty-eight years. Through Mr. Maloney's efforts, Federated Investors is responsible for virtually all of the state legislation permitting public entities to use money market funds to manage their liquidity. He has also participated on a consultative basis in state legislative efforts to more precisely define and circumscribe those investments that are eligible and suitable for acquisition by public agencies. In two instances, significant sums of money had been lost either through hypothecation and/or the abuse or lack of understanding of strategies designed to ameliorate interest rate risk. In the former, Mr. Maloney was appointed to a commission chaired by the state's Supreme Court Chief Justice to deconstruct a scheme that defrauded a state investment pool of over $100 million.

Mr. Maloney was a member of the Board of Directors of the Foundation for Fiduciary Studies and was appointed by the U.S. House of Representatives and Senate as a member of the Industry Sector Working Group on Financial Services. He is an instructor in trust and securities law at Boston University School of Law, has been a visiting instructor at the Federal Financial Institutions Examination Council and the American Bankers Association's National Graduate Trust School at Northwestern University, and participates in programs leading to the designation of Certified Trust and Financial Advisor. Mr. Maloney has also served as an expert witness in both judicial and legislative settings on matters relating to fiduciary compensation, will construction, and prudent investing.

Mr. Maloney has appeared as a speaker at American Bankers Association gatherings and is a frequent speaker at State Bankers Association meetings on the following subjects: the Gramm-Leach-Bliley Act and Regulation R, the deregulation of the financial services industry, the Uniform Prudent Investor Act and the investment management process it contemplates, fiduciary compensation, revisions to Regulation Q, pension reform and asset allocation as a means of optimizing return and minimizing risk.

Mr. Maloney has authored and co-authored a number of articles appearing in various financial and legal publications regarding the investment responsibilities of corporate fiduciaries. He has also been the architect of various educational videos and memoranda having to do with the Uniform Prudent Investor Act, the implications for trust banks of functional regulation under the Gramm-Leach-Bliley Act, asset allocation in a trust context, the prudence of international investing, fiduciary compensation, and the propriety of a corporate fiduciary utilizing a mutual fund to which it provides discrete services.

Mr. Maloney received his B.A. from Holy Cross College in Worcester, Massachusetts, and his J.D. from Fordham Law School in New York City. He attended Wharton School of the University of Pennsylvania focusing on the financial management of commercial banks. He was an officer in the United States Army from 1969 to 1972 and served as an infantry officer for one year in the Republic of Vietnam.

Federated®

Government Obligations Fund

Institutional Shares

12/31/2009

MONEY MARKET GOVERNMENT

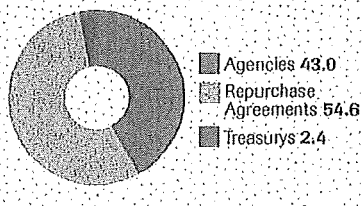
Credit Ratings

AAAm *Standard & Poor's*
Aaa *Moody's*
AAA *Fitch*
NAIC Approved*

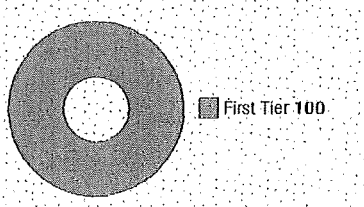
Portfolio Assets

$56.1 billion

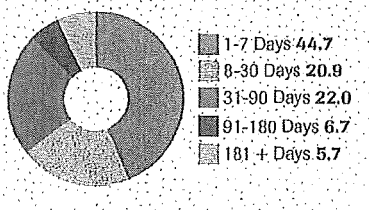
Portfolio Composition (%)



Credit Quality Composition (%)



Effective Maturity Schedule (%)



Effective Average Maturity

36 Days

Not FDIC Insured
May Lose Value • No Bank Guarantee

Investor Goal

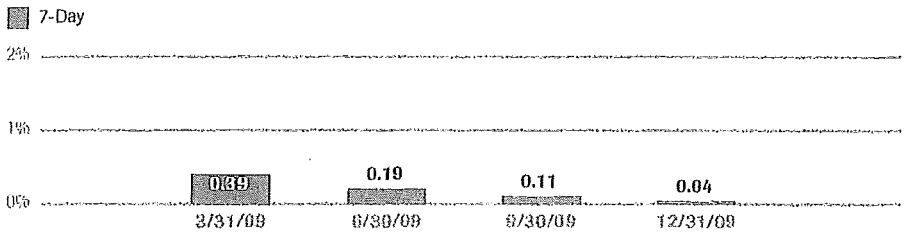
The fund seeks to provide conservative investors with current income consistent with stability of principal. The fund pursues its objective by investing primarily in a portfolio of short-term U.S. Treasury and government agency securities, including repurchase agreements collateralized fully by U.S. Treasury and government agency securities.

Fund Features

- Highest possible ratings from Standard & Poor's, Moody's and Fitch underscore the portfolio's high credit quality and relative safety.
- Approved by the National Association of Insurance Commissioners (NAIC).*
- High asset levels give fund shareholders the benefit of economies of scale.
- As compared to a fund that holds only Treasury securities, the fund seeks potentially higher yields through investment in short-term government agency and repurchase agreements.
- The 5 p.m. EST cut-off time for purchases and redemptions gives institutional investors more time to complete daily cash processing and initiate late day deposit transactions.

Fund Performance

Yield History (%)



Net yields are based on the average daily income dividend and average net asset value for the 7 days ended on the date of calculation.

Net Yields (%)	7-Day
Government Obligations Fund	0.04

Annualized Yields (%)	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
7-Day	0.67	0.48	0.39	0.26	0.22	0.19	0.16	0.11	0.11	0.05	0.06	0.04

Yield and Return (%)

Performance data quoted represents past performance which is no guarantee of future results. Investment return will vary. An investor's shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than what is stated. To view performance current to the most recent month-end, contact us or visit our Web site at FederatedInvestors.com.

**This fund has been designated as an NAIC U.S. Direct Obligations/Full Faith & Credit Exempt listing and is subject to an annual review. Those funds designated as U.S. Direct Obligations/Full Faith & Credit Exempt listings are exempt from NAIC reserve requirements.*

Government Obligations Fund

MONEY MARKET GOVERNMENT

Share Class Statistics

Portfolio Manager(s)
Susan Hill
Deborah Cunningham

Inception Date
3/30/90

Federated Fund Number(s)
5

Cusip Number
60934N-104

Nasdaq Symbol
GOIXX

Newspaper Listing
GovObIS

Cut-Off Times
5:00 p.m. EST – Purchases
5:00 p.m. EST – Redemptions

Dividends
Declared Daily/Paid Monthly

Portfolio Manager Commentary

A year ago, we were thinking the economy appeared to have avoided Armageddon but were unsure of just how much worse the recession would get. This uncertainty was captured in both short- and long-term Treasury yields, which reflected the biggest flight to safety of our post-war lifetime – four-week Treasury bills actually traded at a *negative* yield, briefly, as investors were willing to pay to own an asset class they felt was secure. Now, we know the economy is in recovery, bolstered by an expanding manufacturing sector, a pickup in consumer spending, rising home sales and signs that the labor market – a laggard in recovery – is on the verge of growing again. Yet when it comes to yields, little has changed on the short end of the cash-yield curve. Liquidity and other systemic problems that were being dealt with a year ago aren't an issue. It's just that until it feels assured that the recovery is sustainable and the economy is out of the woods, the Federal Reserve is continuing to hold to its "exceptionally low levels" for an "extended period" policy when it comes to its benchmark short-term rate. The money markets are taking their cue from the Fed, and until it shifts course, we don't see money market yields changing much. Still, an improving economy will help – yields farther out on the cash-yield curve already are rising on better economic prospects. We also expect the Fed will act to bump up rates this summer. So look for some modest improvement on the yield front in coming months.

Susan Hill
Fund Manager & Senior Vice President

An investment in the fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.

Performance shown is for Institutional Shares. The fund offers additional share classes whose performance will vary due to differences in charges and expenses. Please consult your financial institution regarding your eligibility to purchase these classes.

Although not contractually obligated to do so, the adviser and/or certain fund service providers waived all or a portion of their fees or reimbursed the fund for certain operating expenses. These voluntary waivers and reimbursements may be modified or terminated at any time; accordingly, the fund's expenses may vary (i.e., increase or decrease) during the fund's fiscal year. These waivers increase income to the fund and results in a higher return to investors.

Otherwise, the 7-day yield would have been 0.00% and total return would have been lower.

Total return represents the change in value of an investment after reinvesting all income and capital gains. Yield quotations more closely reflect the current earnings of the fund than the total return quotation.

A WORD ABOUT RISK

Fund shares are not guaranteed by the U.S. government. Current and future portfolio holdings are subject to risk.

DEFINITIONS

Net yields are based on the average daily income dividend and average net asset value for the 7 days ended on the date of calculation. The 7-day net annualized yield is based on the average net income per share for the 7 days ended on the date of calculation and the offering price on that date.

The fund is a managed portfolio and its holdings are subject to change.

The holdings percentages are based on net assets at the close of business on 12/31/09 and may not necessarily reflect adjustments that are routinely made when presenting net assets for formal financial statement purposes.

Repurchase agreements consist of a financial institution selling securities to a fund and agreeing to repurchase them at a mutually agreed upon price and time.

RATINGS AND RATING AGENCIES

Money market ratings are an assessment of the safety of invested principal and the ability to maintain a stable market value of the fund's shares. Ratings are based on an evaluation of several factors, including credit quality, diversification and maturity of assets in the portfolio, as well as management strength and operational capabilities. A money market fund rated AAAm by Standard & Poor's is granted after evaluating a number of factors, including credit quality, market price, exposure and management. Money market funds rated Aaa by Moody's are judged to be of an investment quality similar to Aaa-rated fixed income obligations, that is, they are judged to be of the best quality. Fitch's money market fund ratings are an assessment of the safety of invested principal and the ability to maintain a stable market value of the fund's shares.

Ratings are subject to change and do not remove market risk.

The securities in which a fund invests are also rated. Short-term ratings are opinions of the ability of issuers to honor short-term financial obligations. Ratings may be assigned to issuers, short-term programs or to individual short-term debt instruments. Such obligations generally have an original maturity not exceeding thirteen months, unless explicitly noted. First Tier securities are those rated in the highest short-term rating category by one or more Nationally Recognized Statistical Rating Organizations (NRSROs), such as Standard & Poor's, Moody's and Fitch or deemed by the Adviser to be of comparable quality to securities having such ratings.

Securities are considered to be "first tier" as follows: Standard & Poor's: A-1+ and A-1, based on the obligor's capacity to meet its financial commitment on the obligation; Moody's: P-1, based on the issuer's ability to repay short-term obligations; Fitch: F-1+ and F-1, based on the issuer's liquidity necessary to meet financial commitments in a timely manner.

Credit ratings do not provide assurance against default or other loss of money and can change.

Federated®

This must be preceded or accompanied by a current prospectus.