

**2. FROM THE AUGUST 2007 GENERAL SESSION MINUTES:**

**INVESTMENT RESEARCH PRESENTATION- CONT'D.**

Ms. Cunningham provided the Board with an update on money market funds and municipal fixed income investment management for the second quarter 2007.

Ms. Cunningham began with a personnel update, commenting on the addition of one new Euro trader and one new analyst to the group. She then reviewed the assets of domestic SEC-registered funds, noting prominent growth in agency repo money market funds but little change in tax-free money market funds. She also reviewed taxable money market yield curves and the gross performance of taxable and tax-free money market funds, stating that the portfolios did well versus peers. Ms. Cunningham next compared gross and net performance of Federated's money market funds to that of key competitors, commenting on the continuing tight market. She also mentioned the presence of tiering in the marketplace, which has not surfaced since the year 2000. She then discussed the AAA municipal yield curve, and municipal bond fund performance. Ms. Cunningham next addressed tax-free bond assets and three-year risk/return as of June 2007. She also reviewed a municipal risk management report, explaining how sector allocation has been a positive factor over the previous quarter.

Ms. Cunningham discussed a recent decision by Bear Stearns to lend money to one of its two hedge funds troubled by CDO exposure and big, potential losses. She commented on the role of Federated's Counterparty Risk Committee in meeting to assess situations such as the current one with Bear Stearns. She stated that Federated has since determined that it is comfortable with its current exposure to Bear Stearns, but will not be adding new exposure at this time. In response to a question asked at the Independent Director's meeting, Ms. Cunningham explained that nothing is ever purchased without first consulting an analyst. She then discussed the Klio program, which is a commercial paper backed program sponsored by Bear Stearns. She stated that the funds have approximately \$25 million in exposure to Klio, then

explained how it is considered a money market eligible security. She noted that the funds will continue to own Klio through September.

Ms. Cunningham next addressed the funds' subprime mortgage exposure, noting that none of the investments are on a direct basis, but is underlying within banks, broker-dealers, insurers, and asset-backed issuers. She also explained the concept of extendable notes, adding that although a premium of twenty-five to thirty basis points is paid should an investor be extended on a note, that twenty-five to thirty basis points may not be enough to keep the security "eligible" as a floating-rate security worthy of maturity-shortening provisions under Rule 2a-7 of the 1940 Act as amended ("Rule 2a-7"). She then discussed other commercial paper programs that Federated is comfortable holding within its portfolios and reviewed those programs' sponsors in response to a question. Ms. Cunningham next discussed the money market funds' exposure to Countrywide, noting comfort with what is currently held, and commenting on the daily repo trade done with Countrywide. In response to a question, Ms. Cunningham stated that Citibank extendable notes are floating and pay interest monthly. A question was then asked regarding whether the Valuation Committee has had to deal with many pricing issues due to the current credit environment. In response, Ms. Cunningham explained that because commercial paper, in general, is matrix priced, the pricing mechanism for the funds has been able to determine a valuation without the need for the Valuation Committee to meet to make a separate valuation. Mr. Novak added that the Valuation Committee has had two meetings relating to subprime mortgage exposure, but with regard to fixed income, not money market, funds.

Ms. Cunningham then referred the Board to the *Fund Investment Reports Book* for additional information and reviewed the investment objectives, performance overview, portfolio holdings, and investment strategies for the money market funds for the second quarter 2007. She noted that from an investor's perspective, money market funds currently represent a flight to quality.

Mr. Jonathan C. Conley provided an update, via a videotaped presentation, on SLM Corporation ("SLM"). He discussed a proposed merger among SLM, JC Flowers & Co., LLC

and J. P. Morgan Chase & Co. He explained, however, that the acquisition is currently on hold because of conflicts regarding interest rate subsidies. Mr. Conley reported that shareholders of SLM will vote on the acquisition on August 15, 2007. He then discussed penalty payments. Mr. Conley also discussed Federated's exposure in the taxable money market funds. He indicated that SLM is viewed as a minimal credit risk.

Mr. Robert J. Ostrowski provided the Board with an update on the taxable fixed income funds for the first quarter 2007.

Mr. Ostrowski introduced Mr. Richard Donahue, who works in the Performance Attribution Group, and Mr. Joseph Balestrino, a Senior Portfolio Manager and Head of the Domestic High Grade Corporate Bond Group. Mr. Ostrowski then addressed subprime mortgage exposure within the taxable fixed income funds, noting that three portfolios which are designed to have high exposure to asset-backed securities still had no more than seven percent sub-prime exposure. All other portfolios for which the Board is responsible had less than one percent exposure to the sub-prime asset-backed securities sector. He also addressed exposure within the taxable fixed income funds to Bear Stearns and Countrywide, noting minimal amounts of both. Mr. Ostrowski commented on the use of derivatives, specifically focusing on those instruments which were intended to act as protection for the client sectors.

Mr. Ostrowski next reviewed the breakdown of managed assets for the taxable fixed income funds. He then provided a personnel update, mentioning the recent addition of a performance attribution analyst. He also reviewed performance relative to benchmark and peer ranking for the second quarter 2007, noting a mixed outcome. Mr. Ostrowski discussed historical performance versus benchmark, then reviewed the Morningstar Universe performance portfolios on a one- and three- year basis. He also discussed the three-year risk/return profile for the taxable fixed income funds, pointing out key portfolios in the low risk, high return area.

Mr. Balestrino then provided a review of the economic environment. He began by discussing prevailing conditions, noting continued growth but at a slowing pace. He then stated that the unemployment rate is currently in the near perfect range at 4.6%, as movement upward

could trigger a recession and movement downward could prompt wage inflation and an interest rate increase. He also addressed activity of the Federal Reserve and foreign central banks, noting a sustainable growth pattern moving into 2008. Mr. Balestrino discussed various factors contributing to economic direction, such as effects of the housing market spillover and expansion in both the manufacturing and service sectors. He then commented on the Federal Reserve's next move, which will likely be an interest rate cut. In closing, he reviewed capital market trends, noting bond yield movement across the globe and in the U.S. and equity issues that will need to be considered in the near term.

Mr. Ostrowski then discussed taxable fixed income decision tools, as listed within the Materials. He explained duration and currency management, sector allocation, the yield curve analysis and security selection in terms of current positioning and the rationale for such. He then referred the Board to the sample attribution analysis within the Materials, noting that sector allocation and security selection are the most important factors in generating alpha.

Mr. Ostrowski then referred the Board to the *Fund Investment Reports Book* for additional information and reviewed the investment objectives, performance overview and investment strategies for the fixed income funds for the second quarter 2007. He commented on the positive impact that single name derivative exposure in certain countries has had for FIHIF and EMCORE. In response to a question, he discussed recent outflows from and underperformance of FIBF. In response to a request, he then explained the rationale for the proposal to change the investment strategy for FHYT. He noted that most five star funds in the high yield sector have equity exposure and the intention is to allow one of Federated's fixed income offerings to permit investment in equities in order to remain competitive.