European banks and Federated's prime money market funds

As of 09-22-2011

As the European sovereign-debt crisis continues to remain in the headlines, it's important to separate actual risk from headline risk. The daily, stringent analysis that is at the root of how Federated operates its money market funds leads us to believe that there's still value in select European senior bank debt since the banks continue to represent minimal credit risk.

Federated's team of analysts and portfolio managers makes daily evaluations about each European bank that we own. The approved banks for our prime money market funds include 16 European banks from eight countries, each of which undergoes our stringent credit-analysis process just to make it on the list. We review capital structure, liquidity structure, management structure and other key factors, and are confident that the banks that make the cut are the best capitalized, most diversified, most liquid and highest quality names in the market.

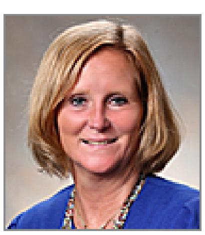
On average, 40% to 45% of the assets in most Federated prime funds are in securities from large, essentially global banks that are domiciled in Europe. These holdings have not changed significantly over the last month and offer relative value in the marketplace. Among the French banks, which have been much in the news over the last week or so, we have shortened maturities for new purchases. While Moody's recently downgraded the long-term debt of two French banks—Societe Generale and Credit Agricole (the latter also remains on credit watch for a potential further downgrade)—the ratings agency affirmed the banking companies' short-term ratings, which is the segment of the market with which we deal. Moody's also affirmed the short-term rating on BNP Paribas while leaving the long-term debt on credit watch.

Bank exposure minimal in troubled euro-zone countries

The exposure that European banks on our approved list have in the most troubled euro-zone countries is relatively minimal. For example, our most recent analysis of the positions of these banks determined that even with a 100% haircut on Greek, Irish and Portuguese sovereign debt, the Tier 1 common capital ratio for our European banks goes from 10% to 9.5%, still significantly above the regulatory minimum. We've also determined that a potential default by Greece on its debt would be an earnings event for the banks, not a solvency event. This reflects the fact that the global banks in which Federated invests—eight of the world's 10 largest banks are domiciled outside the U.S.—have operations that reach around the world, potentially enhancing their ability to withstand events in any single country.

Finally, it is important to remember that there is an additional level of U.S. regulatory scrutiny that applies to the European securities used in Federated money market funds. All of the European banks approved for use in Federated portfolios are globally diversified with operations in the U.S. Because the senior bank debt from these banks can be issued through their U.S. entities, these banks are subject to U.S. regulatory authority and oversight in addition to the regulatory standards mandated in their home countries.

While it doesn't appear that the EU's debt woes will resolve themselves anytime soon, the extensive and daily credit work performed by Federated's portfolio managers and analysts, combined with the oversight of U.S. regulators, underscore our confidence that use of these carefully selected securities from major global European banks should continue to benefit our funds.



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Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

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

Past performance is no guarantee of future results.

Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. To obtain a summary prospectus or prospectus containing this and other information, contact us or view the prospectus provided on this website. Please carefully read the summary prospectus or prospectus before investing.

International investing involves special risks including currency risk, increased volatility, political risks and differences in auditing and other financial standards.

The Tier 1 common capital ratio is a measure of a banking firm's financial strength that compares the firm's core equity capital to its total risk-weighted assets.

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