

Federated's cash management experience and commitment to quality are hallmarks of our business. We remain committed to our disciplined investment management approach and seek to offer you the information and resources you need to make sound investment choices.

On February 23, 2010, the Securities and Exchange Commission ("SEC") adopted amendments to Rule 2a-7 under the Investment Company Act of 1940, which governs money market funds. The SEC also adopted other new rules and Form N-MFP. The rules and forms are designed to prevent future disruptions in the money market funds industry similar to those that occurred in September 2008. The below outline offers a summary of the key money market reform rules.

I. Portfolio Quality Changes

1. *Second Tier Securities:* The SEC amended Rule 2a-7 to reduce the maximum exposure that a money market fund may have to second tier securities (second tier securities are eligible securities that have received other than the highest short-term debt rating from the requisite NRSROs; or, if unrated, have been determined by the fund's board to be of comparable quality). The SEC indicated that it was concerned about second tier securities because, among other things, they trade in thinner markets and generally have a weaker credit quality profile. Under amended Rule 2a-7, a money market fund may not acquire a second tier security if, immediately after the acquisition, it would have invested more than 3% of its total assets in second tier securities, or more than 0.5% of its total assets in second tier securities of a single issuer. Also, a money market fund may not acquire any second tier security with a remaining maturity of greater than 45 calendar days.
2. *Eligible Securities:* Under amended Rule 2a-7, the board of a money market fund is required to designate four or more NRSROs on which the fund will rely to determine whether a security is an eligible security for investment. The board must also determine at least once each calendar year that the designated NRSROs are sufficiently reliable for such purpose. Once the board has designated the NRSROs, the fund must look to the designated NRSROs whenever it has to consider credit ratings under Rule 2a-7. The designated NRSROs must be identified in the money market fund's Statement of Additional Information. The SEC noted that the industry had generally supported the retention of NRSRO ratings in Rule 2a-7, and had asserted that NRSRO designation would encourage competition among NRSROs and reduce the cost of subscribing to all NRSROs' ratings.

Compliance Date: May 28, 2010 for item #1; December 31, 2010 for item #2

II. Maturity Changes

1. *Weighted Average Maturity:* The SEC amended Rule 2a-7 to reduce the maximum weighted average maturity ("WAM") of a money market fund's portfolio from 90 days to 60 days. The calculation of WAM remains unchanged. The SEC indicated that it believed that the reduced WAM limit would result in money market funds that are more resilient to changes in interest rates that may be accompanied by other market shocks, and thus better protect money market fund investors.
2. *Weighted Average Life:* Rule 2a-7 was amended to adopt a 120-day limit on the weighted average life ("WAL") of a money market fund's portfolio. The concept of WAL is new, and is generally calculated by using the stated final maturity date of variable rate securities. This will limit the amount of longer-term adjustable rate securities that a money market fund can hold. The SEC indicated that it believed that the WAL limitation would provide an extra layer of protection for money market funds and their shareholders against spread risk, particularly in volatile markets.

Compliance Date: June 30, 2010

III. Liquidity Changes

The SEC adopted a number of provisions related to portfolio liquidity, which were intended to require money market funds to maintain a sufficient degree of liquidity to meet reasonably foreseeable redemption requests and reduce the likelihood that a fund would have to meet redemptions by selling portfolio securities in a declining market.

1. *General Liquidity Requirement:* Rule 2a-7 was amended to require a money market fund to hold securities that are sufficiently liquid to meet reasonably foreseeable shareholder redemptions. Depending upon the fund's cash flow, this provision may require the fund to maintain greater liquidity than would be required by the minimum daily and weekly liquidity requirements (see below). The SEC expects a money market fund to adopt policies and procedures designed to assure that appropriate efforts are undertaken to identify risk characteristics of shareholders as part of the fund's compliance programs. Managers will be expected to consider characteristics of a money fund's investors and their likely redemptions as a factor in determining liquidity needs.
2. *Limitation on Acquisition of Illiquid Securities:* Under amended Rule 2a-7, a money market fund cannot acquire illiquid securities if, immediately after the acquisition, the fund would have invested more than 5% of its total assets in illiquid securities. An "illiquid security" is a security that cannot be sold or disposed of in the ordinary course of business within seven days at approximately the value ascribed to it by the money market fund.
3. *Minimum Daily Liquidity Requirements:* Rule 2a-7 was amended to provide that a *taxable* money market fund may not acquire any security other than a "daily liquid asset" if immediately after the acquisition, the fund would have invested less than 10% of its total assets in daily liquid assets. Daily liquid assets are cash (including time deposits), direct obligations of the U.S. Government (e.g., Treasury securities), and securities (including repurchase agreements) that will mature or are subject to a demand feature that is exercisable and payable within one business day.
4. *Minimum Weekly Liquidity Requirements:* Rule 2a-7 was amended to provide that a money market fund may not acquire any security other than a "weekly liquid asset" if immediately after the acquisition, the fund would have invested less than 30% of its total assets in weekly liquid assets. Weekly liquid assets are cash (including time deposits), direct obligations of the U.S. Government (e.g., Treasury securities), discount notes of certain U.S. instrumentalities with remaining maturities of 60 days or less, and securities (including repurchase agreements) that will mature or are subject to a demand feature that is exercisable and payable within five business days.
5. *Stress Testing:* Under amended Rule 2a-7, a money market fund is required to adopt procedures for the periodic testing of the fund's ability to maintain a stable net asset value per share based upon certain hypothetical events. Stress tests will be required to be conducted at intervals that are determined by the fund's board to be appropriate and reasonable in light of current market conditions.

Compliance Date: May 28, 2010 (for items 1-5)

IV. Repurchase Agreement Changes

The SEC adopted two amendments that affect money market fund investments in repurchase agreements for purposes of Rule 2a-7's diversification requirements, including: (1) limiting money market funds to investing in repurchase agreements collateralized by cash items or government securities to obtain special "look-through" treatment of those investments under Rule 2a-7's diversification provisions; and (2) reinstating the requirement that a money market fund's board of directors evaluate the creditworthiness of the repurchase agreement's counterparty.

Compliance Date: May 28, 2010

- V. Changes Regarding Web-Site Disclosure of Portfolio Information**
Amended Rule 2a-7 incorporates a monthly electronic reporting requirement. For each security held, a money market fund must post the name of the issuer, the category of investment, the CUSIP number, the principal amount, the maturity date as determined under Rule 2a-7 for purposes of calculating WAM, the final maturity date, the coupon or yield, and the amortized cost value, so that fund investors may monitor their investments. Funds must also post the WAM and WAL of their portfolios within five business days after the end of the month, and this information must be maintained on the fund's Web site for no less than six months after posting.
Compliance Date: October 7, 2010
- VI. Changes Regarding Reporting to the SEC**
The SEC has created Form N-MFP which a money market fund must submit monthly. The reported information will be compiled into a central database by the SEC. The information required to be included in the Form N-MFP includes both fund-specific information and portfolio-specific information. Notably, the fund-specific information includes, among other things, the shadow price per share for the fund and each of its classes. The portfolio-specific information includes, among other things, the category of investment of each portfolio security, the designated NRSROs and ratings, the maturity date, the market value, and whether the portfolio security is illiquid. This information must be filed within five business days after the end of the month. The SEC will make the reports filed with it publicly available 60 days after the end of the relevant month.
Compliance Date: December 7, 2010 (with respect to November month-end information). Accordingly, the SEC will make the reports publicly available on or about February 7, 2011
- VII. Changes Regarding Processing of Transactions**
Amended SEC Rule 2a-7 will now require a fund (or its transfer agent) to have the capacity to redeem and sell its securities at a price based on the fund's current net asset value per share (i.e., the fund must be able to process transactions in an orderly fashion if it "breaks the buck").
Compliance Date: October 31, 2011
- VIII. Suspension of Redemptions**
Amended Rule 22e-3 permits a money market fund to suspend redemptions if (1) 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; (2) the board irrevocably approves liquidation; and (3) the fund notifies the SEC of its decision via email prior to liquidating. The SEC may rescind or modify the suspension, after appropriate notice and hearing, if the fund has not devised or is not properly executing its plan of liquidation. A money market fund need not actually break the buck or reprice its securities before it suspends redemptions pursuant to this rule. The SEC intended this amendment to reduce the vulnerability of investors to the harmful effects of a run on the fund and minimize the potential for disruption to the securities markets.
Compliance Date: May 5, 2010

Federated welcomes these approved changes to money market fund industry oversight. As a money market pioneer and leader for more than three decades, Federated has and always will continue to emphasize stringent credit research and experienced portfolio management, using the SEC's Rule 2a-7 standards as a starting point, not a finishing point.