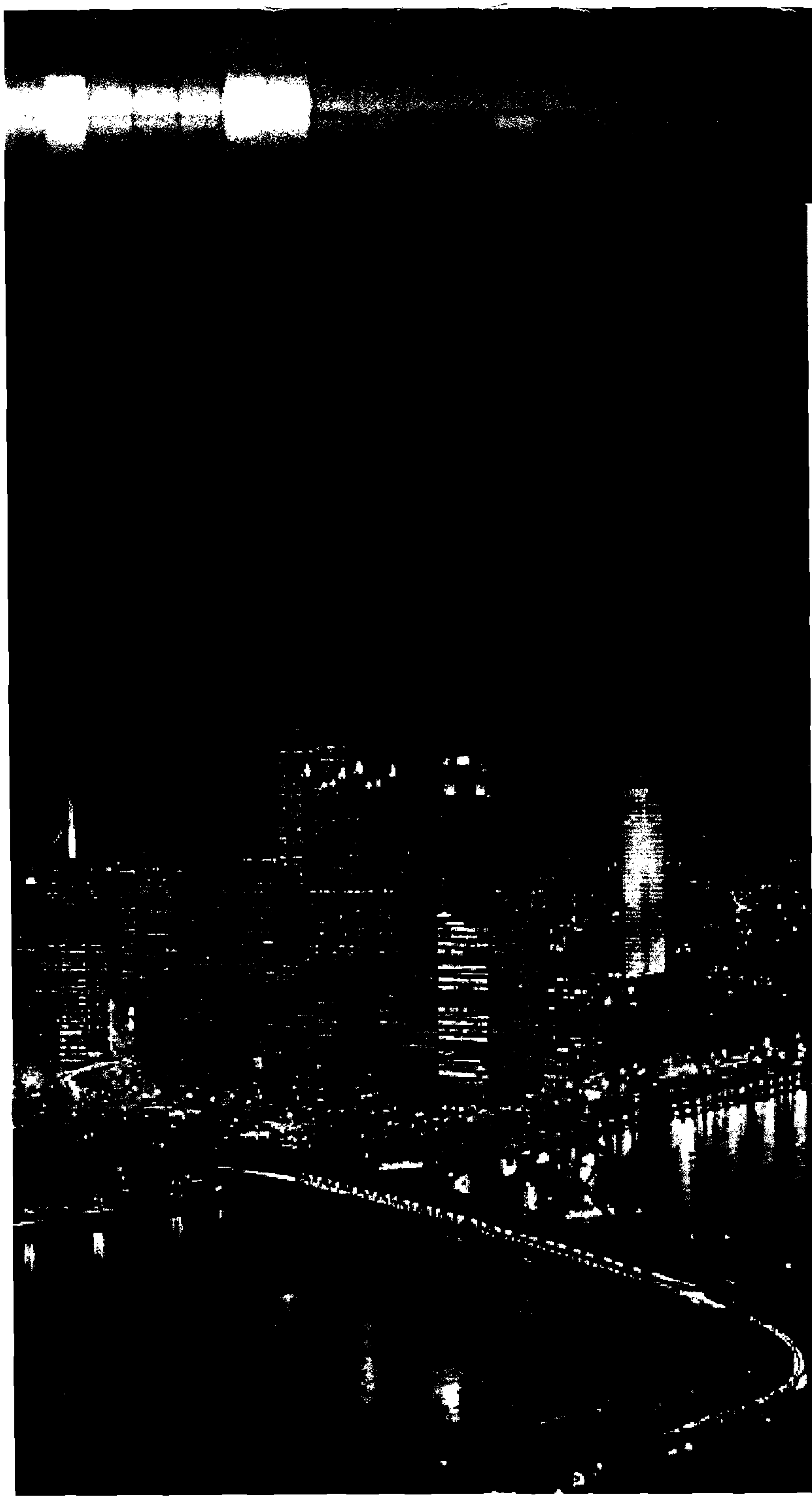

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Proposed Money Fund Reforms

MEETINGS WITH
SECURITIES EXCHANGE COMMISSION

January, 2010

Federated®

Federated's Representatives

John McGonigle

Vice Chairman and Chief Legal Officer, Federated Investors, Inc.

Deborah A. Cunningham, CFA

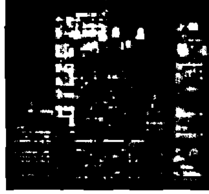
Executive Vice President and Chief Investment Officer

For Taxable Money Market Funds

Federated Investors, Inc.

Steve Keen

Partner, Reed Smith



Federated Investors, Inc. Historically

- Over 50 years in the mutual fund business
- A pioneer in amortized cost money funds
  - Among the first to use amortized cost method in the 1970s
  - Defended the amortized cost method in SEC hearings regarding the original exemptive order
  - Developed one of the first tax-exempt funds
- Introduced money funds to bank trustees and other fiduciaries
  - Changed OCC interpretations to permit use of mutual funds
  - Promoted enabling legislation
  - Laws and indentures generally require stable value

Federated Investors, Inc. Today

- **As of 9/30/2009**
  - Over $390 billion in AUM
  - $288 billion in money market funds
  - Third largest money fund manager in the U.S.*
- **Offered in multiple distribution channels**
  - Bank Trust
  - Bank and Broker Sweep
  - Corporate Treasury
  - Municipalities
  - Insurance
  - Portals

- **Offer the full gamut of stable value funds**

<u>40 Act Money Market Funds</u>

- Treasury & Government (w/ and w/out repo)
- Prime
- Municipal (National & 16 State Specific)

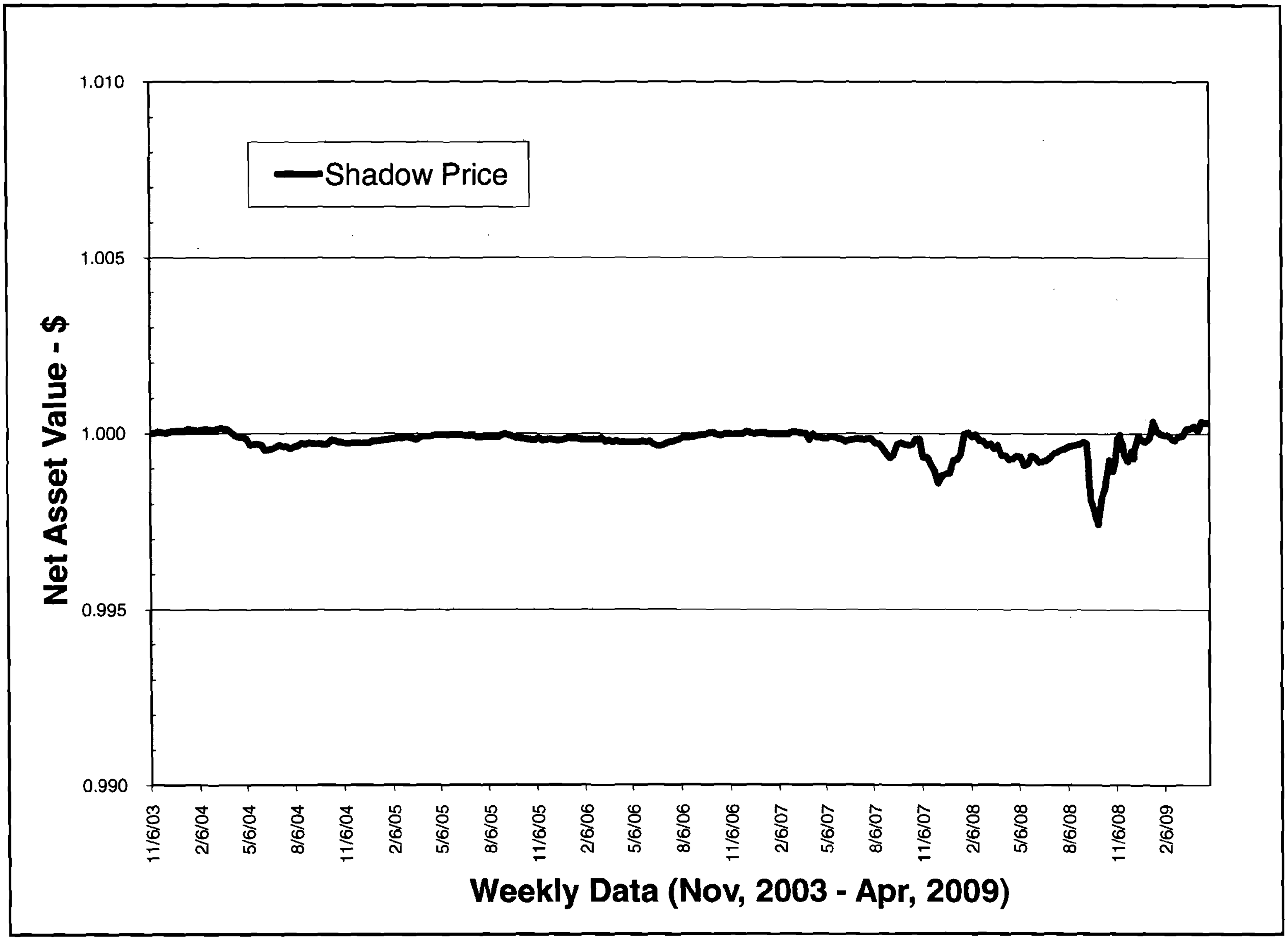
<u>Non-40 Act Funds</u>

- State Investment Pools ($28 billion)
- Offshore Funds ($13 billion)
- Collective Trusts
- Separate Accounts

<u>Rated and Unrated</u>

* *Source: Strategic Insight, October 2009*

Example of a Prime Money Fund Shadow Price



Statements Made by SEC Regarding Importance of Money Market Funds

- Money market funds have been one of the most important innovations within the mutual fund industry
- Money market funds served as the vehicle that essentially introduced many investors to the mutual fund industry
- Money market funds are of fundamental importance to the financial system
- Money market funds have provided a great benefit to the fund investors

[illegible] Market Funds Have Provided Great Benefits

- Since the adoption of Rule 2a-7, an estimated $325 trillion has flowed through money market funds

- Over the past 24 years, investors have increased their returns by over $450 billion by investing in money funds rather than interest-bearing bank deposit accounts

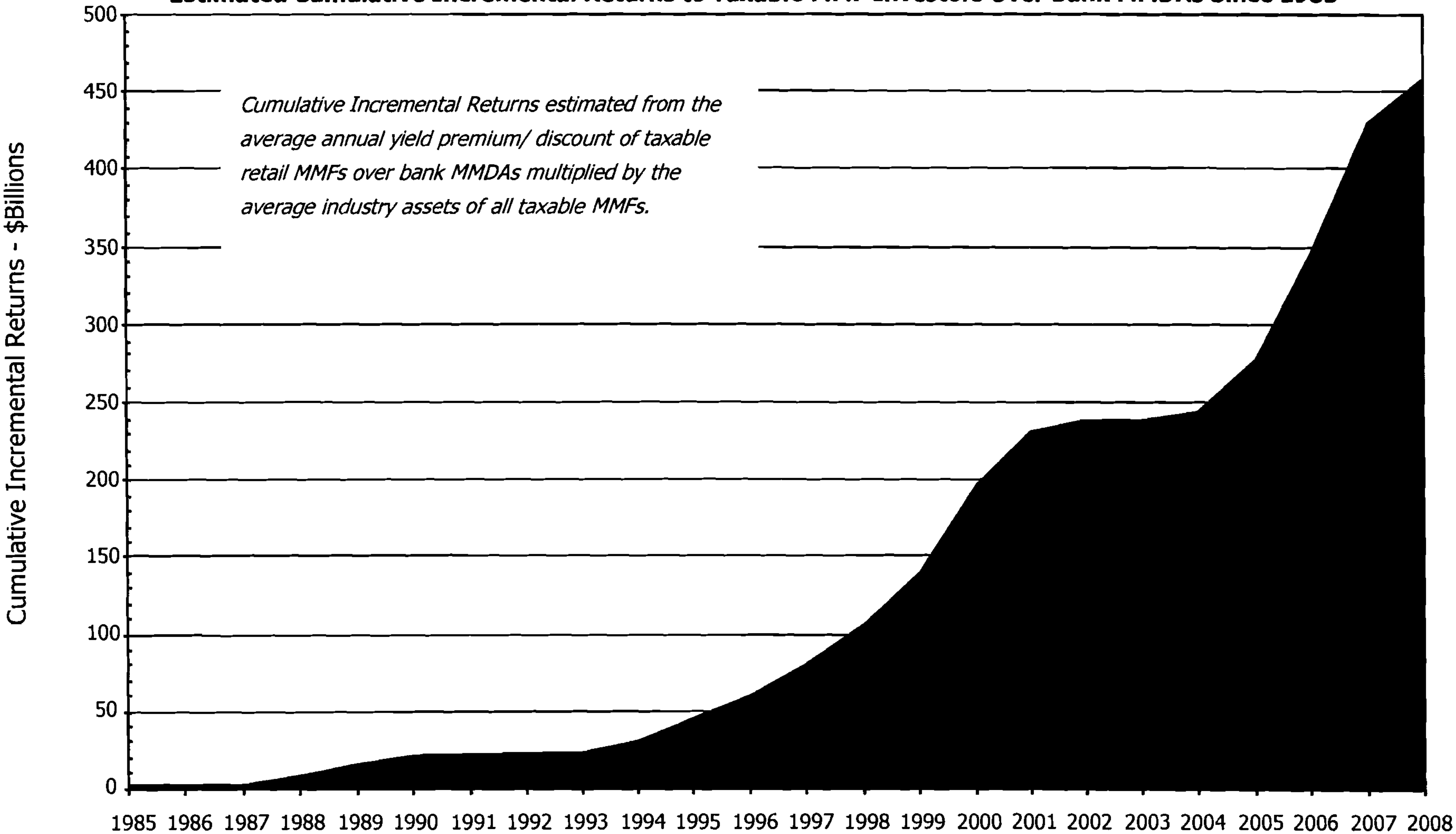
- An investment of $1,000 in the average money fund at the beginning of 1999 would have out yielded the average bank account by over $200 by the end of 2008*

    - Even if the fund broke a dollar and paid only 98¢ a share, the investor would still be ahead by over $180

* *iMoneyNet, Bank Rate Monitor*

[illegible]ive Incremental Returns to Investors

Estimated Cumulative Incremental Returns to Taxable MMF Investors Over Bank MMDAs Since 1985

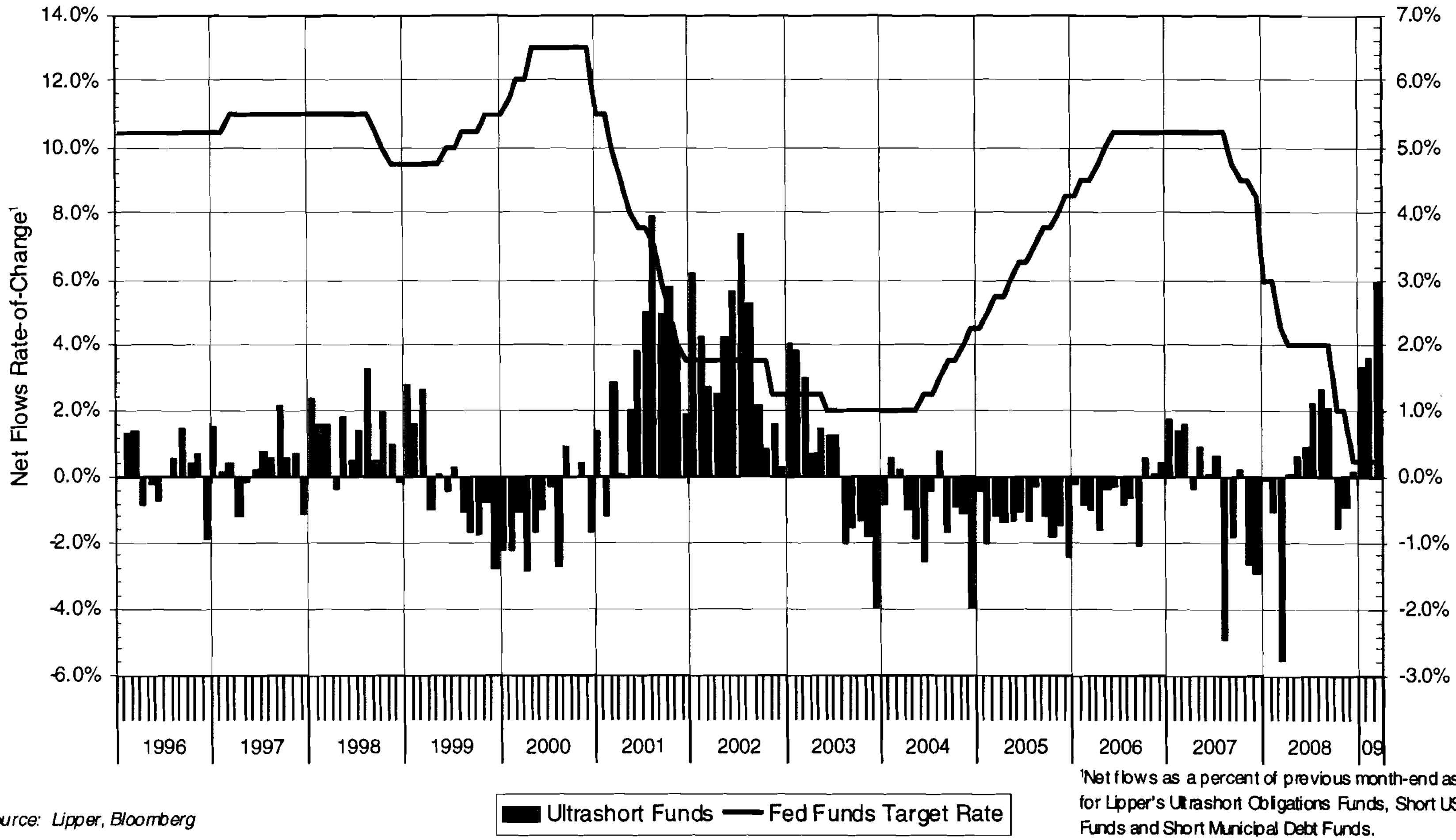


Source: ICI, iMoneyNet, Bank Rate Monitor

Fluctuating Funds Cannot Match the Popularity of Stable Funds

- Over the past thirty years, many advisers (including Federated) have tried to develop a fluctuating alternative to money market funds
- From the investor's perspective, a "fluctuating" money market fund is an oxymoron
  - Investors do not consider fluctuating funds a substitute for a stable fund
  - Investors view investments in even low volatility funds as a allocation out of cash
- Ultrashort Funds are a good example
  - No matter what the yield environment, never reached even $100 billion in total assets
  - Cash flows are more closely linked to interest rate cycle than money funds

Ultrashort Funds Net Flows Rate-of-Change[1] vs. Fed Funds Target Rate



Source: Lipper, Bloomberg

[1]Net flows as a percent of previous month-end assets, for Lipper's Ultrashort Obligations Funds, Short US Gov't Funds and Short Municipal Debt Funds.

[illegible] Market Impact of Fluctuating NAV

- Even if "fluctuating" money market funds were ten times more successful than ultrashort funds, they would hold less than a third of current money fund assets
- Where would the other $2 trillion go?
- What would be the impact on
  - The CP market, where money funds consistently represent 30% to 40% of the market
  - The repo market, where Federated alone provides over $100 billion of financing every day
  - The municipal market, where money funds represent 65% of the short-term note market
  - The banks with suddenly expanded deposit bases

Reforms Should Focus on Mitigating Impact of Breaking a Dollar

- While the industry will strive to avoid the event, other funds will break a dollar in the future
- Objectives when fund breaks a dollar
  - Minimize ultimate loss to shareholders
  - Provide immediate access to a portion of their account balance
  - Complete liquidation of fund (other than defaulted securities) within a matter of months
  - Treat shareholders equitably and keep them informed
- If large scale redemptions occur in other funds, create a source of back-up liquidity
- Meeting these objectives should reduce risk of future panics

Liquidity Requirements Are the Most Important Proposed Rule 2a-7 Reform

- Federated fully supports general requirement to maintain sufficient liquidity for anticipated redemptions
- Federated also supports minimum one and seven-day liquidity requirements
  - Supports ICI's 5%/20% proposal. Would create a potential liquidity pool of $380 billion dollars to fund redemptions
- Federated opposes trying to classify funds as institutional or retail
  - Experts have assumed that funds are already correctly labeled, which is not the case
  - Many funds labeled as institutional did not lose significant assets in September 2008
  - The behavior of "institutional" investors varies widely
  - Do not assume that the behavior of "retail" investors will never change

Ability to Suspend Redemptions Is the Most Important Proposed New Rule

- Boards of troubled money market funds currently have three choices
  - Continue to price redemptions at $1 while the adviser looks for a solution
  - Break a dollar
  - Suspend redemptions without an order from the SEC, in violation of ICA 22(e)
- Current proposals will help if a fund breaks a dollar
  - Fund must be able to price at three digits
  - Board may suspend redemption without order if fund is going to liquidate
- Boards need time to look for better solutions
  - Allow temporary suspension of redemptions when only alternative is breaking a dollar
  - Threat of suspension may counterbalance impulse to run

Putnam/Federated Transaction Illustrates Virtue of Temporary Suspension

- Following Reserve Primary Fund's breaking a dollar, Putnam Prime Money Market Fund suffered net redemptions of $9.7 billion
    - Fund did not hold any defaulted or distressed securities
    - Paid out $5.2 billion (30% of the fund) before suspending redemptions
- Putnam Board chose third option and suspended redemptions without an order to allow adviser to find a better solution than breaking a dollar
- Federated agreed to allow Putnam fund to merge with a large Federated *institutional* fund, which had more than enough liquidity to meet all outstanding redemption orders for both funds
- The merger was completed within a week of suspending redemptions, and full liquidity was restored to shareholders without any losses
- Similar transactions might have been possible for many of the Reserve Funds, if the Board had not continued to honor redemptions after Lehman filed for bankruptcy

Redemption-In-Kind Is Not a Complete Solution

- Federated has done as much as any firm in the industry to study feasibility of redemption-in-kind
  - Has executed redemption-in-kind in isolated circumstances (large redemption by a shareholder who wants to receive redemption-in-kind and provides sufficient notice)
  - Has a task force that studied and performed mock redemption-in-kind
  - Comment letter specified legal issues that staff could address
  - Even with issues resolved, probably a limited solution, due to need to treat both redeeming and remaining shareholders fairly
- The more alternatives available to a money market fund board the better, but redemption-in-kind will only work in limited circumstances

Federated Remains Willing to Support the Industry in Developing Other Solutions

- Federated has worked with the ICI in researching other means of assuring continued liquidity and avoiding systemic risks
- Federated is currently exploring what additional liquidity alternatives might be available under existing regulations

Combined Reforms Should Prevent Another Run When a Fund Breaks a Dollar

- World has already changed—no one can downplay risk that a fund will break a dollar
- Continuing public discussion of how funds will deal with breaking a dollar should also prepare the investors
- If public can identify which funds are in trouble and which are not, and have confidence that liquidity will be restored quickly, then they should be less likely to panic
- If sound money market funds have access to another liquidity source, large redemptions will not necessarily disrupt the credit markets