

Federated Absolute Return Fund Update

August 2015

Fund Objective

Absolute (positive) returns with a low correlation to the U.S. equity market

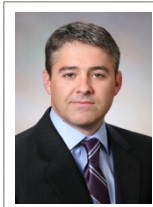
Strategy

Invest globally in various asset classes by taking a flexible and tactical approach

Position for advances or declines by taking net long or short exposure

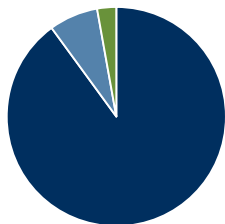
Nasdaq Symbols

A Shares	FMAAX
B Shares	FMBBX
C Shares	FMRCX
Institutional Shares	FMIIX



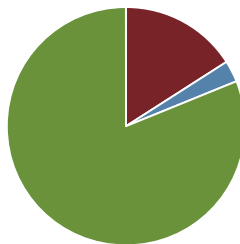
Dana Meissner, CFA

****Long Equity Exposure (%): 81%**



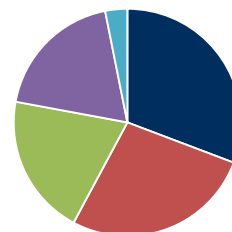
- 73% Domestic
- 6% International
- 2% Delta Adjusted Call Options*

****Non-Equity Long Exposure(%): 21%**



- 3% US Fixed Income Mutual Funds
- 1% Trade Finance Notes
- 17% Cash Equivalents

****Short Exposure (%): 70%**



- 22% Delta Adjusted Put Options*
- 19% US Equity Index Futures***
- 14% Notional Value of Currency Forwards***
- 13% ETFs***
- 2% International Futures***

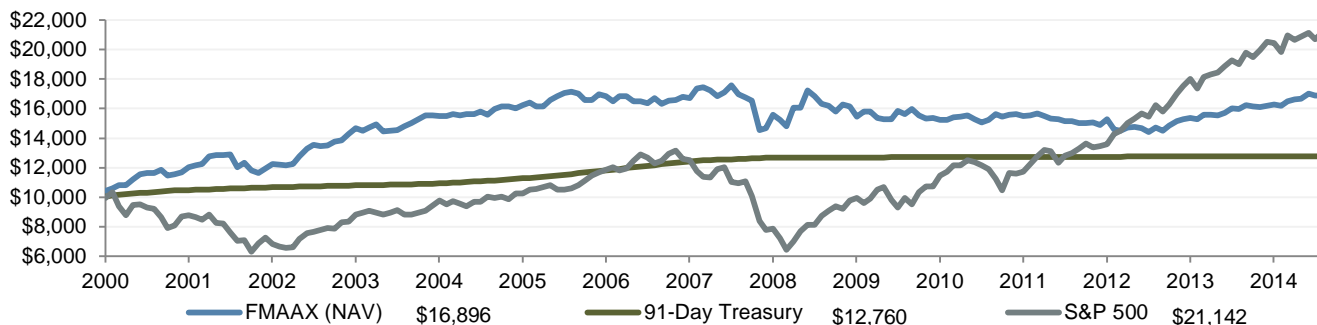
*Delta is the change in value of an option for each dollar change in the market price of the underlying asset.

**Excluding the non-cash portion of options, currency forwards, futures, and short positions, the fund's asset breakout will add to 100%.

***Currency forwards, futures, and ETF short positions require no cash outlays; thus the notional value is reported.

Portfolio Exposures as of 7/31/2015

Value of \$10,000 Invested Since Inception



12/4/2000 inception through 7/31/15

Average Annual Returns (%) – Class A Shares as of 6/30/2015

Expense Ratio¹

	1 Year	2 Year	5 year	10 Year	Since Inception (12/4/00)	Before Waivers	After Waivers
NAV	5.48	8.16	1.29	.66	3.66	1.66	1.54
LOAD	-.29	5.12	.14	.10	3.26	1.66	1.54

Performance data quoted represents past performance which is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than what is stated. To view performance current to the most recent month-end, and for after tax returns, contact us or visit FederatedInvestors.com. Load returns reflect the maximum sales charge of 5.5%. Total return may have been lower in the absence of temporary expense waivers or reimbursements.

¹The fund's expense ratio is from the most recent prospectus. The expense ratio may reflect voluntary fee waivers and/or expense reimbursements determined by the fund's Adviser and its affiliates. The voluntary waivers and/or reimbursements, if applicable, are in effect up to but not including the later of 1/1/16 or the date of the fund's next effective prospectus.

This material must be preceded or accompanied by a prospectus for the Federated Absolute Return Fund.

Please see important disclosures on last page.

As I suspected, global markets are again putting pressure on the Federal Reserve (Fed) as they eye tighter monetary policy. Similar to the Taper Tantrum of 2013, we are again reminded how dependent global risk markets have become on accelerating easy monetary policy. Emerging markets (EM) currencies and equities are plunging to new lows as market participants prepare for even more US dollar strength. A key problem with the US dollar strength is that it further increases the US dollar debt burden that the EM has amassed during this credit cycle.

However, it seems that neither the Fed, nor other central bankers in Europe are inclined to let tightening global financial conditions impact their forecasts. Because they continue to base policy decisions partly on their (abysmal track record) forecasts, they arguably do not properly factor in the realities of today's markets and economy, despite the claim of being "data dependent". Slowing China and plunging commodity effects are deemed to be "transient" in Fed forecasting models, while the impact of declining global asset prices remains absent from their models, as far as I can discern.

I sense that global central bankers are now losing credibility, as they cling to forecasting methodologies that have been proven to be ill-suited for today's extraordinary conditions, contradict each other on almost a daily basis, and underestimate the potential for tighter financial conditions to choke off global economic growth. Even if the Fed does a 180-degree turn in response to further market weakness, I fear that the damage to their credibility will be lasting. If this is correct, then the Fed may find markets less inclined to follow their intended path (up).

If the Fed loses their tight control of markets, then I believe that they could lose control of the US economy. My premise behind this statement is that the (subpar) economic recovery of the last five years has been mostly driven by a muted wealth effect from booming asset prices. These asset prices were caused by central bankers, led by the Fed, forcing interest rates to below-equilibrium levels, which increased the perceived value of stocks, bonds, and homes. I see no reason that this wealth effect could not reverse (perhaps even with a multiplier since losses should hurt sentiment more than gains help it).

If this is right, then a decline in stock prices could impair the U.S. economic recovery that is being taken for granted by most central bankers and market participants. For these reasons, we have further reduced our net equity exposure in August and have increased our focus on Risk Management. Based on the rationale that the Fed is abandoning Emerging Markets (EM) and outside US (OUS) market support generally, we have increased our short exposure to these areas. Global growth estimates are currently falling despite massive Quantitative Easing (QE) from Fed-inspired central banks around the world. We have increased short positions related to EM stocks, bonds, and currencies (Brazil, Mexico, South Africa, Chile, Turkey). We have also increased or maintained short positions related to OUS stocks (Australia, Japan, France, Italy).

While on the topic of policymakers losing credibility, China has to top the list. Their sequence of policy moves this year signal both desperation and lack of understanding of financial markets. Not surprisingly, their measures seem to be having the opposite of their intended impact. The icing on the cake was their surprise move to devalue the Yuan after a longstanding peg to the US dollar. Many feel that China's \$3.7 trillion USD international reserves will be ample to control their economic and market decline. Count me skeptical. I believe that the reserve number will prove to be well less than the bad debt portion of China's outstanding debt of over \$30 trillion USD. Their reserves as a percentage of GDP is also somewhat average when compared globally.

Market conditions have deteriorated as well in the third quarter. Market breadth (number of names making new highs versus new lows), widening credit spreads, volatility, and reversal in equity market momentum are all factors that have worsened during the months of July and August. The equal weighted S&P 500 has suffered a "death cross" (50-day crossing below 200 day moving average), which historically has preceded poor risk-adjusted returns for the S&P 500 until a new "golden cross" (50-day rising back above 200-day) occurs.

In response to these developments, we continued to decrease the equity market exposure of the Absolute Return Fund in August, exiting the month at 12% net long. This is toward the lower end of our typical 0 to 50% net long equity exposure range. A significant driver of this reduction in our equity exposure was the increased size of our put-option-related short exposure. We purchased out-of-the money (strike prices below current market prices) equity put options at low volatility (one indicator of the price of the option protection) at various times this year. When the market experienced four-year-high-volatility levels in the month of August it caused some of our options to go into the money (market price falls below strike price). This causes gains in the fund that helped to offset losses on the long side of the portfolio and also increased the short exposure represented by the put securities. One important point is that this reduction in our equity exposures happens without us having to make trades or anticipate the volatility strike, and without the need for continuous market prices.

Going forward, I continue to think that it is key to monitor global interest rates. Since interest rates have been forced to below-equilibrium levels, rates should be an important indicator of central banks remaining in control of global bond markets. With waning confidence in global central bankers, I am watching to see if/when market participants might try to profit from shorting bonds that are likely far overpriced relative to the underlying fundamentals. Just as deep-value investors eagerly look for entry points into undervalued securities, I believe that hedge funds and flexible fund managers eagerly look for a bottom in interest rates as the entry point to short overvalued global bond securities.

Even though we have only modest exposure to fixed-income in the Absolute Return Fund, we care deeply about global interest rates because they directly impact the valuation of stocks. Our bullish equity thesis from 2013 to mid-2015 was based on our expectation for valuation expansion from perpetually lower interest rates caused by aggressive central bank purchases. The corollary to this thesis is that equity valuation multiples could contract if interest rates were to increase due to short sellers moving in to challenge central bank buyers, who have recently disclosed expectations for future inflation increases. If interest rates start to back up (increase) and equity markets suffer another round of losses, I suspect it may not be long before the Fed starts to contemplate further QE (QE 4 or QE Infinity 2, depending on how one counts the rounds). These are extraordinary times indeed.

Important Disclosures

- ***Performance quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Performance figures at net asset value do not reflect the maximum sales charge of 5.5% for Class A Shares. See the prospectus for other fees and expenses that apply to a continued investment in the fund. Current performance may be lower or higher than what is stated. To view performance current to the most recent month-end, and for after-tax returns, contact us or visit Federatedinvestors.com.***
- **All information is as of 7/31/2015 unless stated otherwise.**
- Portfolio composition is subject to change. The percentages are based on net assets at the close of business on the date indicated and may not necessarily reflect adjustments that are routinely made when presenting net assets for formal financial statement purposes.
- Investments in precious metals, put options, and commodities are subject to additional risks. International investing involves special risks, such as currency risks, increased volatility of securities, political risks, and different financial standards. The Fund may make short sales of securities, which involves unlimited risk including the possibility that losses may exceed the original amount invested.
- Total return represents an investment's value after reinvesting all income and capital gains. See the prospectus for other fees and expenses that apply to a continued investment in the Fund. Lipper figures represent the average of the total returns reported by all the mutual funds designated by Lipper Inc. as falling into the respective category indicated. They do not reflect sales charges. Investments cannot be made in an index. S&P 500 Index: An unmanaged, capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of stocks representing all major industries. The Russell 3000 Value Index measures the performance of those Russell 3000 Index (3000 large U.S. companies as determined by market capitalization) companies with lower price-to-book ratios and lower forecasted growth rates. Actual investments cannot be made in an index. Past performance is no guarantee of future results. Diversification does not assure profit nor protect against loss.
- Absolute return investing may outperform broad markets during period of flat or negative market performance but may not outperform stocks and bonds during market rallies.
- Bond prices are sensitive to changes in interest rates, and a rise in interest rates can cause a decline in their prices.
- An investment in an exchange-traded fund ("ETF") generally presents the same primary risks as an investment in a fund that is not exchange traded and may also be subject to other risks, such as: (i) ETF shares may trade above or below their net asset value; (ii) an active trading market for an ETF's shares may not develop or be maintained and (iii) trading of an ETF's shares may be halted by the listing exchange's officials.
- The fund's use of derivatives involves risks different from, or possibly greater than, risks associated with investing directly in securities and other traditional investments. Risks include valuation and tax issues, increased potential for losses and/or costs to the fund and a potential reduction in gains to the fund, in addition to stock market, interest rate, credit, currency, liquidity and leverage risks.
- The fund may not achieve its objective.
- Federated Securities Corp., Distributor. Not FDIC Insured May Lose Value No Bank Guarantee

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