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INVESTMENT SERIES FUNDS INC

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CAPITAL GROWTH FUND
(A PORTFOLIO OF INVESTMENT SERIES FUNDS, INC.)
CLASS A SHARES

PROSPECTUS

The Class A Shares (formerly, Liberty Shares) of Capital Growth Fund (the "Fund") represent interests in a diversified portfolio of securities which is an investment portfolio of Investment Series Funds, Inc. (the "Corporation"), an open-end, management investment company (a mutual fund).

The investment objective of the Fund is appreciation of capital.

THE SHARES OFFERED BY THIS PROSPECTUS ARE NOT DEPOSITS OR OBLIGATIONS OF ANY BANK, ARE NOT ENDORSED OR GUARANTEED BY ANY BANK, AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE BOARD, OR ANY OTHER GOVERNMENT AGENCY. INVESTMENT IN THESE SHARES INVOLVES INVESTMENT RISKS INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

This prospectus contains the information you should read and know before you invest in Class A Shares of the Fund. Keep this prospectus for future reference.

The Fund has also filed a Combined Statement of Additional Information for Class A Shares, Class C Shares, and Investment Shares dated December 31, 1993, with the Securities and Exchange Commission. The information contained in the Combined Statement of Additional Information is incorporated by reference into this prospectus. You may request a copy of the Combined Statement of Additional Information free of charge, by calling 1-800-235-4669. To obtain other information, or make inquiries about the Fund, contact your financial institution.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Prospectus dated December 31, 1993

TABLE OF CONTENTS

SUMMARY OF FUND EXPENSES	1
FINANCIAL HIGHLIGHTS--CLASS A SHARES	2
GENERAL INFORMATION	3
LIBERTY FAMILY OF FUNDS	3
Liberty Family Retirement Program	4
INVESTMENT INFORMATION	4
Investment Objective	4
Investment Policies	5
Acceptable Investments	5
Corporate Debt Obligations	5
Repurchase Agreements	5
Restricted and Illiquid Securities	6
When-Issued and Delayed Delivery Transactions	6
Foreign Securities	6

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Investing in Securities of
Other Investment Companies 6

Put and Call Options 7
Risks 7
Lending of Portfolio Securities 7
Portfolio Turnover 7
Investment Limitations 7

INVESTMENT SERIES FUNDS, INC. INFORMATION 8
- ---

Management of the Corporation 8
Board of Directors 8
Officers and Directors 8
Investment Adviser 12
Advisory Fees 12
Adviser's Background 12
Distribution of Class A Shares 13
Distribution Plan 13
Administrative Service Arrangements 14
Other Payments to Financial Institutions 14
Administration of the Fund 14
Administrative Services 14

Custodian 14
Transfer Agent, and
Dividend Disbursing Agent 14

Legal Counsel 14
Independent Auditors 14
Expenses of the Fund and
Class A Shares 14
Brokerage Transactions 15

NET ASSET VALUE 15
- ---
INVESTING IN CLASS A SHARES 15
- ---

Share Purchases 15
Through a Financial Institution 16
Directly from the Distributor 16
By Wire 16
Minimum Investment Required 16
What Shares Cost 17
Dealer Concession 17
Reducing the Sales Charge 17
Quantity Discounts and
Accumulated Purchases 18
Letter of Intent 18
Reinvestment Privilege 18
Purchases with Proceeds from Redemptions
of Unaffiliated Mutual Fund Shares 18
Concurrent Purchases 19
Systematic Investment Program 19
Certificates and Confirmations 19
Dividends and Distributions 19
Retirement Plans 19

EXCHANGE PRIVILEGE 19
- ---

Reduced Sales Charge 20
Requirements for Exchange 20
Tax Consequences 20
Making an Exchange 20
Telephone Instructions 20

REDEEMING CLASS A SHARES 21
- ---

Through a Financial Institution 21
Directly from the Fund 21
By Telephone 21
By Mail 22
Signatures 22
Receiving Payment 22
Redemption Fee 22
Redemption Before Purchase
Instruments Clear 23

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Systematic Withdrawal Program 23
Accounts with Low Balances 23

SHAREHOLDER INFORMATION 24

Voting Rights 24

TAX INFORMATION 24

Federal Income Tax 24
Pennsylvania Corporate and Personal
Property Taxes 24

PERFORMANCE INFORMATION 25

OTHER CLASSES OF SHARES 25

Financial Highlights--Class C Shares 27

Financial Highlights--Investment Shares 28

FINANCIAL STATEMENTS 29

REPORT OF ERNST & YOUNG,
INDEPENDENT AUDITORS 39

ADDRESSES Inside Back Cover

SUMMARY OF FUND EXPENSES--CLASS A SHARES

<TABLE>

<S>	<C>	<C>
SHAREHOLDER TRANSACTION EXPENSES		
Maximum Sales Load Imposed on Purchases (as a percentage of offering price)		4.50%
Maximum Sales Load Imposed on Reinvested Dividends (as a percentage of offering price)		None
Deferred Sales Load (as a percentage of original purchase price or redemption proceeds as applicable)		None
Redemption Fee (as a percentage of amount redeemed, if applicable) (1)		0.00%
Exchange Fee		None
ANNUAL CLASS A SHARES OPERATING EXPENSES (As a percentage of average net assets)		
Management Fee (after waiver) (2)		0.00%
12b-1 Fee		0.25%
Other Expenses (after expense reimbursement)		1.00%
Total Class A Shares Operating Expenses (3)		1.25%

</TABLE>

(1) A redemption fee of 0.50% applies only to Shares which are purchased with proceeds from redemptions of shares of an unaffiliated mutual fund in which a sales load has been paid and which are redeemed within one year of purchase. For a more complete description, see "Redeeming Class A Shares."

(2) The management fee has been reduced to reflect the voluntary waiver of the management fee. The adviser can terminate this voluntary waiver at any time at its sole discretion. The maximum management fee is 0.55% of average daily net assets plus 4.5% of gross income, excluding capital gains or losses.

(3) The Total Class A Shares Operating Expenses would have been 3.62% absent the voluntary waiver of the management fee and the voluntary reimbursement of certain other operating expenses.

THE PURPOSE OF THIS TABLE IS TO ASSIST AN INVESTOR IN UNDERSTANDING THE VARIOUS COSTS AND EXPENSES THAT A SHAREHOLDER OF CLASS A SHARES OF THE FUND WILL BEAR, EITHER DIRECTLY OR INDIRECTLY. FOR MORE COMPLETE DESCRIPTIONS OF THE VARIOUS COSTS AND EXPENSES, SEE "INVESTING IN CLASS A SHARES" AND "INVESTMENT SERIES FUNDS, INC. INFORMATION." Wire-transferred redemptions of less than $5,000 may be subject to additional fees.

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<TABLE>
<CAPTION>

EXAMPLE	1 year	3 years	5 years	10 years
<S>	<C>	<C>	<C>	<C>
You would pay the following expenses on a $1,000 investment assuming (1) 5% annual return and (2) redemption at the end of each time period.....	$57	$83	$111	$189
You would pay the following expenses on the same investment, assuming no sales load, when purchasing Class A Shares of the Fund with the proceeds from the redemption of unaffiliated mutual fund shares and the imposition of a redemption fee under the circumstances described in footnote (1) above.....	$18	$40	$69	$151

</TABLE>

THE ABOVE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES. ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN.

The information set forth in the foregoing table and example relates only to Class A Shares of the Fund. The Fund also offers two additional classes of shares called Investment Shares and Class C Shares. Investment Shares, Class A Shares, and Class C Shares are all subject to certain of the same expenses. However, Investment Shares are subject to a maximum sales load of 5.75%, but are not subject to a redemption fee, a shareholder servicing fee, or a 12b-1 fee. Class C Shares are not subject to a sales load but are subject to a 12b-1 fee of 0.75%, a shareholder servicing fee of .25%, and a contingent deferred sales charge of 1.00%. See "Other Classes of Shares."

CAPITAL GROWTH FUND

FINANCIAL HIGHLIGHTS--CLASS A SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)
Reference is made to the Report of Ernst & Young, Independent Auditors on page 39.

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,	
<S>	<C>	<C>
	1993	1992**
NET ASSET VALUE, BEGINNING OF PERIOD	$ 11.84	$ 12.00
INCOME FROM INVESTMENT OPERATIONS		
Net investment income	0.09	0.11
Net realized and unrealized gain (loss) on investments	1.71	(0.18)
Total from investment operations	1.80	(0.07)
LESS DISTRIBUTIONS		
Dividends to shareholders from net investment income	(0.10)	(0.09)
Distributions to shareholders from net realized gain on investment transactions	(0.16)	--
TOTAL DISTRIBUTIONS	(0.26)	(0.09)
NET ASSET VALUE, END OF PERIOD	$ 13.38	$ 11.84
TOTAL RETURN*	15.34%	-0.61%(b)
RATIOS TO AVERAGE NET ASSETS		
Expenses	1.25%	1.17%(a)
Net investment income	0.73%	1.19%(a)
Expense waiver/reimbursement (c)	2.37%	1.33%(a)
SUPPLEMENTAL DATA		
Net assets, end of period (000 omitted)	$ 11,609	$ 6,540
Portfolio turnover rate	74%	29 %

</TABLE>

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* Based on net asset value which does not reflect the sales load or redemption fee, if applicable.

** Reflects operations for the period from January 16, 1992 (date of initial public investment) to October 31, 1992.

(a) Computed on an annualized basis.

(b) Cumulative total return.

(c) This expense decrease is reflected in both the expense and net investment income ratios shown above (Note 5).

Further information about the Fund's performance is contained in the Fund's annual report for the fiscal year ended October 31, 1993, which can be obtained free of charge.

(See Notes which are an integral part of the financial statements)

GENERAL INFORMATION

The Corporation was incorporated under the laws of the State of Maryland on May 20, 1992. Prior to December 18, 1992, the Fund was operated as a portfolio of Investment Series Trust, a Massachusetts business trust established pursuant to a Declaration of Trust dated March 17, 1987. On December 18, 1992, the shareholders of the Fund voted to reorganize the Fund as a portfolio of the Corporation. The Articles of Incorporation permit the Corporation to offer separate series of shares of capital stock representing interests in separate portfolios of securities. The shares in any one portfolio may be offered in separate classes. With respect to this Fund, as of the date of this prospectus, the Board of Directors ("Directors") has established three classes of shares, known as Class A Shares (formerly, Liberty Shares), Class C Shares, and Investment Shares. This prospectus relates only to the Class A Shares ("Shares") of the Fund.

Shares of the Fund are designed for individuals as a convenient means of accumulating an interest in a professionally managed, diversified portfolio of equity securities with prospects for above average growth in earnings and dividends or of companies where significant fundamental changes are taking place. A minimum initial investment of $500 is required, unless the investment is in a retirement account, in which case the minimum initial investment is $50. Shares are sold at net asset value plus a sales charge and are redeemed at net asset value; however, a redemption fee is imposed on certain Shares. For a more complete description, see "Redeeming Class A Shares."

The Fund's current net asset value and offering price can be found in the mutual funds section of local newspapers under "Liberty Family Funds."

LIBERTY FAMILY OF FUNDS

Class A Shares of the Fund are a member of a family of mutual funds, collectively known as the Liberty Family of Funds. The other funds in the Liberty Family of Funds are:

American Leaders Fund, Inc., providing growth of capital and income through high-quality stocks;

Fund for U.S. Government Securities, Inc., providing current income through long-term U.S. government securities;

International Equity Fund, providing long-term capital growth and income through international securities;

International Income Fund, providing a high level of current income consistent with prudent investment risk through high-quality debt securities denominated primarily in foreign currencies;

Liberty Equity Income Fund, Inc., providing above-average income and capital appreciation through income-producing equity securities;

Liberty High Income Bond Fund, Inc., providing high current income through high-yielding, lower-rated, corporate bonds;

Liberty Municipal Securities Fund, Inc., providing a high level of current income exempt from federal regular income tax through municipal bonds;

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Liberty U.S. Government Money Market Trust, providing current income consistent with stability of principal through high-quality U.S. government securities;

Liberty Utility Fund, Inc., providing current income and long-term growth of income, primarily through electric, gas, and communication utilities;

Stock and Bond Fund, Inc. (Class C Shares), providing relative safety of capital with the possiblity of long-term growth of capital and income through equity securities, convertible securities, debt securities, and short-term obligations; and

Tax-Free Instruments Trust, providing current income consistent with stability of principal and exempt from federal income tax, through high-quality, short-term municipal securities.

Prospectuses for these funds are available by writing to Federated Securities Corp.

Each of the funds may also invest in certain other types of securities as described in each fund's prospectus.

The Liberty Family of Funds provides flexibility and diversification for an investor's long-term investment planning. It enables an investor to meet the challenges of changing market conditions by offering convenient exchange privileges which give access to various investment vehicles and by providing the investment services of proven, professional investment advisers.

LIBERTY FAMILY RETIREMENT PROGRAM

The Fund is also a member of the Liberty Family Retirement Program, an integrated program of investment options, plan recordkeeping, and consultation services for 401(k) and other participant-directed benefit and savings plans. Under the Program, employers or plan trustees may select a group of investment options to be offered in a plan which also uses the Program for recordkeeping and administrative services. Additional fees are charged to participating plans for these services. As part of the Program, exchanges may readily be made between investment options selected by the employer or plan trustee.

The other funds participating in the Liberty Family Retirement Program are: American Leaders Fund, Inc.; Fund for U.S. Government Securities, Inc.; International Equity Fund; International Income Fund; Liberty Equity Income Fund, Inc.; Liberty High Income Bond Fund, Inc.; Liberty Utility Fund, Inc.; Prime Cash Series; and Stock and Bond Fund, Inc.

No sales charge is imposed on purchases made by qualified retirement plans with over $1 million invested in funds available in the Liberty Family Retirement Program.

INVESTMENT INFORMATION
- ---

INVESTMENT OBJECTIVE

The investment objective of the Fund is appreciation of capital. The investment objective cannot be changed without approval of shareholders. While there is no assurance that the Fund will achieve its investment objective, it endeavors to do so by following the investment policies described in this prospectus.

INVESTMENT POLICIES

The Fund pursues its investment objective by investing primarily in equity securities of companies with prospects for above-average growth in earnings and dividends or of companies where significant fundamental changes are taking place. The Fund generally invests in companies with market capitalization of $100,000,000 or more. The investment policies may be changed by the Directors without shareholder approval. Shareholders will be notified before any material change in these policies becomes effective.

ACCEPTABLE INVESTMENTS. Equity securities are selected by the Fund's investment adviser on the basis of traditional research techniques, including assessment of earnings and dividend growth prospects and of the risk and volatility of each company's business. The fundamental changes which the investment adviser will seek to identify in companies include, for example, restructuring of basic businesses or reallocations of assets which present opportunities for significant share price appreciation. At times, the Fund will invest in

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securities of companies which are deemed by the investment adviser to be candidates for acquisition by other entities as indicated by changes in ownership, changes in standard price to value ratios, and an examination of other standard analytical indices. Under normal circumstances, at least 65% of the value of the Fund's total assets will be invested in equity securities. However, the Fund is not required to purchase or sell these securities if the 65% investment level changes due to increases or decreases in the market value of portfolio securities.

The Fund may invest in preferred stocks, corporate bonds, debentures, notes, warrants, and put options on stocks. For temporary defensive purposes, the Fund may also invest in short-term money market instruments, U.S. government securities, and hold cash in such proportions as the Fund's investment adviser may determine.

CORPORATE DEBT OBLIGATIONS. The Fund may invest up to 35% of the value of its total assets in corporate debt obligations that are rated B or better by a nationally recognized statistical rating organization ("NRSRO"). Corporate debt obligations that are not determined to be investment grade (rated BBB or higher by Standard & Poor's Corporation or Fitch Investors Service, Inc., or Baa or higher by Moody's Investors Service, Inc.) are high-yield, high-risk bonds, typically subject to greater market fluctuations and greater risk of loss of income and principal due to an issuer's default. To a greater extent than investment grade bonds, lower rated bonds tend to reflect short-term corporate, economic, and market developments, as well as investor perceptions of the issuer's credit quality. In addition, lower rated bonds may be more difficult to dispose of or to value than higher-rated, lower-yielding bonds. Bonds rated BB or B, or Ba or B, respectively, by a NRSRO have speculative characteristics. Changes in economic conditions or other circumstances are more likely to lead to weakened capacity to make principal and interest payments than higher rated bonds. Downgraded securities will be evaluated on a case by case basis by the adviser. The adviser will determine whether or not the security continues to be an acceptable investment. If not, the security will be sold. A full description of the rating categories is contained in the Appendix to the Statement of Additional Information.

REPURCHASE AGREEMENTS. The Fund may purchase acceptable investments pursuant to repurchase agreements. Repurchase agreements are arrangements in which banks, broker/dealers, and other recognized financial institutions sell U.S. government or other securities to the Fund and agree at the time of sale to repurchase them at a mutually agreed upon time and price. To the extent that the original seller does not repurchase the securities from the Fund, they could receive less than the repurchase price on any sale of such securities.

RESTRICTED AND ILLIQUID SECURITIES. The Fund intends to invest in restricted securities up to specific limitations. These limitations are not applicable to commercial paper issued under Section 4(2) of the Securities Act of 1933. Restricted securities are any securities in which the Fund may otherwise invest pursuant to its investment objective and policies but which are subject to restriction on resale under federal securities law. The Fund will limit investments in illiquid securities, including certain restricted securities not determined by the Directors to be liquid, and repurchase agreements providing for settlement in more than seven days after notice, to 15% of net assets.

The Fund may invest in commercial paper issued in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933. Section 4(2) commercial paper is restricted as to disposition under federal securities law and is generally sold to institutional investors such as the Fund who agrees that the Fund is purchasing the paper for investment purposes and not with a view to public distribution. Any resale by the purchaser must be in an exempt transaction. Section 4(2) commercial paper is normally resold to other institutional investors like the Fund through or with the assistance of the issuer or the investment dealers who make a market in Section 4(2) commercial paper, thus providing liquidity. The Fund believes that Section 4(2) commercial paper and possibly certain other restricted securities which meet the criteria for liquidity established by the Directors of the Corporation are quite liquid. The Fund intends, therefore, to treat the restricted securities which meet the criteria for liquidity established by the Directors, including Section 4(2) commercial paper, as determined by the investment adviser of the Fund, as liquid and not subject to the investment limitation applicable to illiquid securities. In addition, because Section 4(2) commercial paper is liquid, the Fund intends to not subject such paper to the limitation applicable to restricted securities.

WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS. The Fund may purchase acceptable investments on a when-issued or delayed delivery basis. In when-issued and delayed delivery transactions, the Fund relies on the seller to complete the transaction. The seller's failure to complete the transaction may cause the Fund to miss a price or yield considered to be advantageous.

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FOREIGN SECURITIES. The Fund may invest up to 10% of its net assets in foreign securities. Investments in foreign securities, particularly those of non-governmental issuers, involve considerations which are not ordinarily associated with investments in domestic issuers. These considerations include the possibility of expropriation, the unavailability of financial information, or the difficulty of interpreting financial information prepared under foreign accounting standards, less liquidity and more volatility in foreign securities markets, the impact of political, social, or diplomatic developments, and the difficulty of assessing economic trends in foreign countries. It may also be more difficult to enforce contractual obligations abroad than would be the case in the United States because of differences in the legal systems. Transaction costs in foreign securities may be higher. The investment adviser will consider these and other factors before investing in foreign securities and will not make such investments unless, in its opinion, such investments will meet the Fund's standards and objective. The Fund will only purchase securities issued in U.S. dollar denominations.

INVESTING IN SECURITIES OF OTHER INVESTMENT COMPANIES. _The Fund may invest in the securities of other investment companies, but it will not own more than 3% of the total outstanding voting stock of any investment company, invest more than 5% of its total assets in any one investment company, or invest more than 10% of its total assets in investment companies in general. The Fund will only invest in other investment companies that are money market funds having an investment objective and policies similar to its own and primarily for the purpose of investing short-term cash which has not yet been invested in other portfolio instruments. The investment adviser to the Fund will waive its investment advisory fee on assets invested in securities of open-end investment companies.

PUT AND CALL OPTIONS. The Fund may purchase put options on stocks. These options will be used only as a hedge to attempt to protect securities which the Fund holds against decreases in value. The
Fund may purchase these put options as long as they are listed on a recognized options exchange and the underlying stocks are held in its portfolio.

The Fund may also write call options on securities either held in its portfolio or which it has the right to obtain without payment of further consideration or for which it has segregated cash in the amount of any additional consideration. The call options which the Fund writes and sells must be listed on a recognized options exchange. Writing of call options by the Fund is intended to generate income for the Fund and thereby protect against price movements in particular securities in the Fund's portfolio.

RISKS. The effective use of options as hedging techniques depends on the correlation between their prices and the behavior of the Fund's portfolio securities as well as the investment adviser's ability to accurately predict the direction of stock prices, interest rates and other relevant economic factors. Prior to exercise or expiration, an option position can only be terminated by entering into a closing purchase or sale transaction. This requires a secondary market on an exchange which may or may not exist for any particular call or put option at any specific time. The absence of a liquid secondary market also may limit the Fund's ability to dispose of the securities underlying an option. The inability to close options also could have an adverse impact on the Fund's ability to effectively hedge its portfolio.

LENDING OF PORTFOLIO SECURITIES. In order to generate additional income, the Fund may lend portfolio securities on a short-term or a long-term basis up to one-third of the value of its total assets to broker/dealers, banks, or other institutional borrowers of securities. The Fund will only enter into loan arrangements with broker/dealers, banks, or other institutions which the investment adviser has determined are creditworthy under guidelines established by the Directors and will receive collateral equal to at least 100% of the value of the securities loaned.

PORTFOLIO TURNOVER

Although the Fund does not intend to invest for the purpose of seeking short-term profits, securities in its portfolio will be sold whenever the Fund's investment adviser believes it is appropriate to do so in light of the Fund's investment objective, without regard to the length of time a particular security may have been held.

INVESTMENT LIMITATIONS

The Fund will not:

borrow money directly or through reverse repurchase agreements

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(arrangements in which the Fund sells a portfolio instrument for a percentage of its cash value with an agreement to buy it back on a set date) or pledge securities except, under certain circumstances, the Fund may borrow up to one-third of the value of its total assets and pledge up to 10% of the value of those assets to secure such borrowings;

sell securities short except, under strict limitations, the Fund may maintain open short positions so long as not more than 10% of the value of its net assets is held as collateral for those positions; or

lend any of its assets except portfolio securities up to one-third of the value of its total assets.

The above investment limitations cannot be changed without shareholder approval. The following limitations, however, may be changed by the Directors without shareholder approval. Shareholders will be notified before any material changes in these limitations become effective.

The Fund will not:

invest more than 5% of its total assets in securities of issuers that have records of less than three years of continuous operations including the operation of any predecessors;

commit more than 5% of its total assets to premiums on open put option positions;

invest more than 5% of its total assets in securities of one issuer (except cash and cash items, repurchase agreements collateralized by U.S. government securities, and U.S. government obligations) or purchase more than 10% of any class of voting securities of any one issuer; or

invest more than 5% of its total assets in warrants.

INVESTMENT SERIES FUNDS, INC. INFORMATION

MANAGEMENT OF THE CORPORATION

BOARD OF DIRECTORS. The Corporation is managed by a Board of Directors. The Directors are responsible for managing the business affairs of the Corporation and for exercising all of the Corporation's powers except those reserved for the shareholders. An Executive Committee of the Board of Directors handles the Directors' responsibilities between meetings of the Directors.

OFFICERS AND DIRECTORS. Officers and Directors are listed with their addresses, principal occupations, and present positions, including any affiliation with Federated Advisers, Federated Investors, Federated Securities Corp., Federated Administrative Services, Inc., and the Funds described in the Statement of Additional Information.

<TABLE>
<CAPTION>

NAME AND ADDRESS	POSITIONS WITH THE CORPORATION	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS
<S>	<C>	<C>
John F. Donahue* Federated Investors Tower Pittsburgh, PA	Chairman and Director	Chairman and Trustee, Federated Investors; Chairman and Trustee, Federated Advisers, Federated Management, and Federated Research; Director, AEtna Life and Casualty Company; Chief Executive Officer and Director, Trustee, or Managing General Partner of the Funds; formerly, Director, The Standard Fire Insurance Company. Mr. Donahue is the father of J. Christopher Donahue, President and Director of the Corporation.
John T. Conroy, Jr. Wood/IPC Commercial Department John R. Wood and Associates, Inc., Relators 3255 Tamiami Trail North Naples, FL	Director	President, Investment Properties Corporation; Senior Vice-President, John R. Wood and Associates, Inc., Realtors; President, Northgate Village Development Corporation; General Partner or Trustee in private real estate ventures in Southwest Florida; Director, Trustee, or Managing General Partner of the Funds; formerly President, Naples Property Management, Inc.
William J. Copeland One PNC Plaza-23rd Floor Pittsburgh, PA	Director	Director and Member of the Executive Committee, Michael Baker, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Vice

</RT>

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		Chairman and Director, PNC Bank, N.A. and PNC Bank Corp. and Director, Ryan Homes, Inc.
J. Christopher Donahue* Federated Investors Tower Pittsburgh, PA	President and Director	President and Trustee, Federated Investors; Trustee, Federated Advisers, Federated Management, and Federated Research; President and Director, Federated Administrative Services, Inc.; President or Vice President of the Funds; Director, Trustee, or Managing General Partner of some of the Funds. Mr. Donahue is the son of John F. Donahue, Chairman and Director of the Corporation.
James E. Dowd 571 Hayward Mill Road Concord, MA	Director	Attorney-at-law; Director, The Emerging Germany Fund, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Director, Blue Cross of Massachusetts, Inc.
Lawrence D. Ellis, M.D. 3471 Fifth Avenue Suite 1111 Pittsburgh, PA	Director	Hematologist, Oncologist, and Internist, Presbyterian and Montefiore Hospitals; Clinical Professor of Medicine and Trustee, University of Pittsburgh; Director, Trustee, or Managing General Partner of the Funds.
Edward L. Flaherty, Jr.\ 5916 Penn Mall Pittsburgh, PA	Director	Attorney-at-law; Partner, Meyer and Flaherty; Director, Eat'N Park Restaurants, Inc., and Statewide Settlement Agency, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Counsel, Horizon Financial, F.A., Western Region.
Peter E. Madden 225 Franklin Street Boston, MA	Director	Consultant; State Representative, Commonwealth of Massachusetts; Director, Trustee, or Managing General Partner of the Funds; formerly, President, State Street Bank and Trust Company, State Street Boston Corporation, and Trustee Lahey Clinic Foundation, Inc.
Gregor F. Meyer 5916 Penn Mall Pittsburgh, PA	Director	Attorney-at-law; Partner, Meyer and Flaherty; Chairman, Meritcare, Inc.; Director, Eat'N Park Restaurants, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Vice Chairman, Horizon Financial, F.A.
Wesley W. Posvar 1202 Cathedral of Learning University of Pittsburgh Pittsburgh, PA	Director	Professor, Foreign Policy and Management Consultant; Trustee, Carnegie Endowment for International Peace, RAND Corporation; Online Computer Library Center Inc.; and U.S. Space Foundation; Chairman, Czecho Slovak Management Center; Director, Trustee, or Managing General Partner of the Funds; President Emeritus, University of Pittsburgh; formerly, Chairman, National Advisory Council for Environmental Policy and Technology.
Marjorie P. Smuts 4905 Bayard Street Pittsburgh, PA	Director	Public relations/marketing consultant; Director, Trustee, or Managing General Partner of the Funds.
Richard B. Fisher Federated Investors Tower Pittsburgh, PA	Vice President	Executive Vice President and Trustee, Federated Investors; Chairman and Director, Federated Securities Corp.; President or Vice President of the Funds; Director or Trustee of some of the Funds.
Edward C. Gonzales Federated Investors Tower Pittsburgh, PA	Vice President and Treasurer	Vice President, Treasurer, and Trustee, Federated Investors; Vice President and Treasurer, Federated Advisers, Federated Management, and Federated Research; Executive Vice President, Treasurer, and Director, Federated Securities Corp.; Chairman, Treasurer, and Director, Federated Administrative Services, Inc.; Trustee or Director of some of the Funds; Vice President and Treasurer of the Funds.
John W. McGonigle Federated Investors Tower Pittsburgh, PA	Vice President and Secretary	Vice President, Secretary, General Counsel, and Trustee, Federated Investors; Vice President, Secretary and Trustee, Federated Advisers, Federated Management, and Federated Research; Executive Vice President, Secretary, and Director, Federated Administrative Services, Inc.; Director and Executive Vice

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		President, Federated Securities Corp.; Vice President and Secretary of the Funds.
John A. Staley, IV Federated Investors Tower Pittsburgh, PA	Vice President	Vice President and Trustee, Federated Investors; Executive Vice President, Federated Securities Corp.; President and Trustee, Federated Advisers, Federated Management, and Federated Research; Vice President of the Funds; Director, Trustee, or Managing General Partner of the Funds; formerly, Vice President, The Standard Fire Insurance Company and President of its Federated Research Division.

*This Director is deemed to be an "interested person" of the Corporation as defined in the Investment Company Act of 1940.

\Members of the Corporation's Executive Committee. The Executive Committee of the Board of Directors handles the responsibilities of the Directors between meetings of the Directors.

INVESTMENT ADVISER. Pursuant to an investment advisory contract with the Corporation, investment decisions for the Fund are made by Federated Advisers, the Fund's investment adviser (the "Adviser"), subject to direction by the Directors. The Adviser continually conducts investment research and supervision for the Fund and is responsible for the purchase or sale of portfolio instruments, for which it receives an annual fee from the Fund.

ADVISORY FEES. The Adviser receives an annual investment advisory fee equal to .55 of 1% of the Fund's average daily net assets plus 4.5% of the Fund's annual gross income, excluding any capital gains or losses. Gross income includes, in general, discount earned on U.S. Treasury bills and agency discount notes, interest earned on all interest bearing obligations and dividend income recorded on the ex-dividend date but does not include capital gains or losses or reduction of expenses. The Adviser may voluntarily waive a portion of its fee or reimburse the Fund for certain operating expenses. The Adviser can terminate this voluntary waiver at any time at its sole discretion. The Adviser has also undertaken to reimburse the Fund for operating expenses in excess of limitations established by certain states.

ADVISER'S BACKGROUND. Federated Advisers, a Delaware business trust organized on April 11, 1989, is a registered investment adviser under the Investment Advisers Act of 1940. It is a subsidiary of Federated Investors. All of the Class A (voting) shares of Federated Investors are owned by a trust, the trustees of which are John F. Donahue, Chairman and Trustee of Federated Investors, Mr. Donahue's wife, and Mr. Donahue's son, J. Christopher Donahue, who is President and Trustee of Federated Investors.

Federated Advisers and other subsidiaries of Federated Investors serve as investment advisers to a number of investment companies and private accounts. Certain other subsidiaries also provide administrative services to a number of investment companies. Total assets under management or administration by these and other subsidiaries of Federated Investors are approximately $70 billion. Federated Investors, which was founded in 1956 as Federated Investors, Inc., develops and manages mutual funds primarily for the financial industry. Federated Investors' track record of competitive performance and its disciplined, risk averse investment philosophy serve approximately 3,500 client institutions nationwide. Through these same client institutions, individual shareholders also have access to this same level of investment expertise.

Gregory M. Melvin has been the Fund's portfolio manager since December, 1989. Mr. Melvin joined Federated Investors in 1980 and has been a Vice President of the Fund's investment adviser since 1984. Mr. Melvin is a Chartered Financial Analyst and received his M.B.A. in Finance from Harvard Business School.

DISTRIBUTION OF CLASS A SHARES

Federated Securities Corp. is the principal distributor for Shares of the Fund. Federated Securities Corp. is located at Federated Investors Tower, Pittsburgh, Pennsylvania 15222-3779. It is a Pennsylvania corporation organized on November 14, 1969, and is the principal distributor for a number of investment companies. Federated Securities Corp. is a subsidiary of Federated Investors.

DISTRIBUTION PLAN. Pursuant to the provisions of a distribution plan adopted in accordance with Rule 12b-1 under the Investment Company Act of 1940, as amended (the "Plan"), Shares will pay an amount computed at an annual rate of .25 of 1% of the average daily net asset value of Shares to finance any activity which is

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principally intended to result in the sale of Shares.
The distributor may select financial institutions (such as a broker/dealer or bank) to provide sales support services as agents for their clients or customers who beneficially own Shares. Financial institutions will receive fees from the distributor based upon Shares owned by their clients or customers. The schedules of such fees and the basis upon which such fees will be paid will be determined from time to time by the distributor.

The Fund's Plan is a compensation type plan. As such, the Fund makes no payments to the distributor except as described above. Therefore, the Fund does not pay for unreimbursed expenses of the distributor, including amounts expended by the distributor in excess of amounts received by it from the Fund, including interest, carrying, or other financing charges in connection with excess amounts expended, or the distributor's overhead expenses. However, the distributor may be able to recover such amounts or may earn a profit from future payments made by the Fund under the Plan.

The Glass-Steagall Act prohibits a depository institution (such as a commercial bank or a savings and loan association) from being an underwriter or distributor of most securities. In the event the Glass-Steagall Act is deemed to prohibit depository institutions from acting in the capacities described above or should Congress relax current restrictions on depository institutions, the Board of Directors will consider appropriate changes in the services.

State securities laws governing the ability of depository institutions to act as underwriters or distributors of securities may differ from interpretations given to the Glass-Steagall Act and, therefore, banks and financial institutions may be required to register as dealers pursuant to state laws.

The distributor may, from time to time and for such periods as it deems appropriate, voluntarily reduce its compensation under the Plan.

ADMINISTRATIVE SERVICE ARRANGEMENTS. The distributor may select brokers and dealers to provide distribution and administrative services. The distributor may also select administrators to provide administrative services. These administrative services include, but are not limited to, distributing prospectuses and other information, providing accounting assistance and communicating or facilitating purchases and redemptions of Shares.

Brokers, dealers, and administrators will receive fees from the distributor based upon Shares owned by their clients or customers. The fees are calculated as a percentage of the average aggregate net asset value of shareholder accounts during the period for which the brokers, dealers, and administrators provide services. Any fees paid for these services by the distributor will be reimbursed by the Adviser.

OTHER PAYMENTS TO FINANCIAL INSTITUTIONS. Federated Securities Corp. will pay financial institutions, at the time of purchase, an amount equal to 0.50 of 1% of the net asset value of Shares purchased by their clients or customers under the Liberty Family Retirement Program or by certain qualified plans as approved by Federated Securities Corp. (Such payments are subject to a reclaim from the financial institution should the assets leave the program within 12 months after purchase.) These payments will be made directly by the distributor from its assets, and will not be made from the assets of the Fund or by the assessment of a sales charge on Shares.

ADMINISTRATION OF THE FUND

ADMINISTRATIVE SERVICES. Federated Administrative Services, Inc., which is a subsidiary of Federated Investors, provides the Fund with the administrative personnel and services necessary to operate the Fund. Such services include shareholder servicing and certain legal and accounting services. Federated Administrative Services, Inc. provides these at approximate cost.

CUSTODIAN. State Street Bank and Trust Company ("State Street Bank"), P.O. Box 8604, Boston, Massachusetts 02266-8604, is custodian for the securities and cash of the Fund.

TRANSFER AGENT AND DIVIDEND DISBURSING AGENT. _Federated Services Company, Pittsburgh, Pennsylvania, is transfer agent for Shares of the Fund, and dividend disbursing agent for the Fund.

LEGAL COUNSEL. Legal counsel is provided by Houston, Houston & Donnelly, 2510 Centre City Tower, Pittsburgh, Pennsylvania 15222, and Dickstein, Shapiro & Morin, 2101 L Street, N.W. , Washington, DC 20037.

INDEPENDENT AUDITORS. Independent auditing services are provided by Ernst & Young, Pittsburgh, Pennsylvania 15219.

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EXPENSES OF THE FUND AND CLASS A SHARES

Holders of each class of shares pay their allocable portion of Fund and Corporation expenses.

The Corporation expenses for which holders of Shares pay their allocable portion include, but are not limited to: the cost of organizing the Corporation and continuing its existence; registering the Corporation with federal and state securities authorities; Directors' fees; auditors' fees; the cost of meetings of Directors; legal fees of the Corporation; association membership dues; and such non-recurring and extraordinary items as may arise from time to time.

The Fund expenses for which holders of Shares each pay their allocable portion include, but are not limited to: registering the Fund and Shares of the Fund; investment advisory services; taxes and commissions; custodian fees; insurance premiums; auditors' fees; and such non-recurring and extraordinary items as may arise from time to time.

At present, the only expenses which are allocated specifically to Shares as a class are expenses under the Fund's Distribution Plan. However, the Directors reserve the right to allocate certain other expenses to holders of Shares as it deems appropriate ("Class Expenses"). In any case, Class Expenses would be limited to: distribution fees; transfer agent fees as identified by the transfer agent as attributable to holders of Shares; printing and postage expenses related to preparing and distributing materials such as shareholder reports, prospectuses and proxies to current shareholders; registration fees paid to the Securities and Exchange Commission and to state securities commissions; expenses related to administrative personnel and services as required to support holders of Shares; legal fees relating solely to Shares; and Directors' fees incurred as a result of issues relating solely to Shares.

BROKERAGE TRANSACTIONS

When selecting brokers and dealers to handle the purchase and sale of portfolio instruments, the Adviser looks for prompt execution of the order at a favorable price. In working with dealers, the Adviser will generally utilize those who are recognized dealers in specific portfolio instruments, except when a better price and execution of the order can be obtained elsewhere. In selecting among firms believed to meet these criteria, the Adviser may give consideration to those firms which have sold or are selling Shares of the Fund and other funds distributed by Federated Securities Corp. The Adviser makes decisions on portfolio transactions and selects brokers and dealers subject to review by the Directors.

NET ASSET VALUE

The Fund's net asset value per Share fluctuates. The net asset value for Shares is determined by adding the interest of the Class A Shares in the market value of all securities and other assets of the Fund, subtracting the interest of the Class A Shares in the liabilities of the Fund and those attributable to the Class A Shares, and dividing the remainder by the total number of Class A Shares outstanding. The net asset values for Investment Shares and for Class C Shares may differ from that of Class A Shares due to the variance in daily net income realized by each respective class. Such variance will reflect only accrued net income to which the shareholders of a particular class are entitled.

INVESTING IN CLASS A SHARES

SHARE PURCHASES

Shares are sold on days on which the New York Stock Exchange and the Federal Reserve Wire System are open. Shares may be purchased through a financial institution which has a sales agreement with the distributor or directly from the distributor, Federated Securities Corp., once an account has been established. In connection with the sale of Shares, Federated Securities Corp. may from time to time offer certain items of nominal value to any shareholder or investor. The Fund reserves the right to reject any purchase request.

Participants in plans under the Liberty Family Retirement Program shall purchase Shares in accordance with the requirements of their respective plans.

THROUGH A FINANCIAL INSTITUTION. An investor may call his financial institution (such as a bank or an investment dealer) to place an order to purchase Shares. Orders through a financial institution are considered received when the Fund is notified of the purchase order. Purchase orders through a registered broker/dealer must be received by the broker before 4:00 P.M. (Eastern time) and must be transmitted by the broker to the Fund before 5:00 P.M. (Eastern time) in

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order for Shares to be purchased at that day's price. Purchase orders through other financial institutions (such as a registered investment adviser) must be received by the financial institution and transmitted to the Fund before 4:00 P.M. (Eastern time) in order for Shares to be purchased at that day's price. It is the financial institution's responsibility to transmit orders promptly.

DIRECTLY FROM THE DISTRIBUTOR. An investor may place an order to purchase Shares directly from the distributor once an account has been established. To do so:

complete and sign the new account form available from the Fund;

enclose a check made payable to Capital Growth Fund--Class A Shares; and

mail both to Investment Series Funds, Inc., P.O. Box 8604, Boston, Massachusetts 02266-8604.

Orders by mail are considered received after payment by check is converted by State Street Bank into federal funds. This is generally the next business day after State Street Bank receives the check.

BY WIRE. To purchase Shares directly from the distributor by wire once an account has been established, call the Fund. All information needed will be taken over the telephone, and the order is considered received when State Street Bank receives payment by wire. Federal funds should be wired as follows: State Street Bank and Trust Company, Boston, Massachusetts 02105; Attention: Mutual Fund Servicing Division; For Credit to: Capital Growth Fund--Class A Shares; Fund
Number (this number can be found on the account statement or by contacting the Fund); Group Number or Order Number; Nominee or Institution Name; ABA Number 011000028. Shares cannot be purchased by wire on Columbus Day, Veterans' Day, or Martin Luther King Day.

MINIMUM INVESTMENT REQUIRED

The minimum initial investment in Shares is $500, unless the investment is in a retirement account, in which case the minimum initial investment is $50. Subsequent investments must be in amounts of at least $100, except for retirement accounts which must be in amounts of at least $50. (Other minimum investment requirements may apply to investments through the Liberty Family Retirement Program.)

WHAT SHARES COST

Shares are sold at their net asset value next determined after an order is received, plus a sales charge as follows:

</TABLE>
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AMOUNT OF TRANSACTION	SALES CHARGE AS A PERCENTAGE OF PUBLIC OFFERING PRICE	SALES CHARGE AS A PERCENTAGE OF NET AMOUNT INVESTED
<S>	<C>	<C>
Less than $100,000	4.50%	4.71%
$100,000 but less than $250,000	3.75%	3.90%
$250,000 but less than $500,000	2.50%	2.56%
$500,000 but less than $750,000	2.00%	2.04%
$750,000 but less than $1 million	1.00%	1.01%
$1 million or more	0.00%	0.00%

</TABLE>

The net asset value is determined at 4:00 P.M. (Eastern time) or at the close of the New York Stock Exchange, Monday through Friday, except on: (i) days on which there are not sufficient changes in the value of the Fund's portfolio securities that its net asset value might be materially affected; (ii) days during which no Shares are tendered for redemption and no orders to purchase Shares are received; and (iii) the following holidays: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

No sales charge is imposed on purchases made by qualified retirement plans with over $1 million invested in funds available in the Liberty Family Retirement Program.

DEALER CONCESSION. For sales of Shares, a dealer will normally receive up to 90% of the applicable sales charge. Any portion of the sales charge which is not paid to a dealer will be retained by the distributor. However, the distributor,

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in its sole discretion, may uniformly offer to pay all dealers selling Shares additional amounts, all or a portion of which may be paid from the sales charge it normally retains or any other source available to it. Such additional payments, if accepted by the dealer, may be in the form of cash or promotional incentives, and will be predicated upon the amount of Shares or of the Liberty Family of Funds sold by the dealer.

The sales charge for Shares sold other than through registered broker/dealers will be retained by Federated Securities Corp. Federated Securities Corp. may pay fees to banks out of the sales charge in exchange for sales and/or administrative services performed on behalf of the bank's customers in connection with the initiation of customer accounts and purchases of Shares.

REDUCING THE SALES CHARGE

The sales charge can be reduced on the purchase of Shares through:

- quantity discounts and accumulated purchases;
- a letter of intent;
- using the reinvestment privilege;
- purchases with proceeds from redemptions of unaffiliated mutual fund shares; or
- concurrent purchases.

QUANTITY DISCOUNTS AND ACCUMULATED PURCHASES. As shown in the table above, larger purchases reduce the sales charge paid. The Fund will combine purchases made in all funds in the Liberty Family of Funds with purchases of Shares on the same day by the investor, his spouse, and his children under age 21 when it calculates the sales charge. To receive the sales charge reduction, Federated Securities Corp. must be notified by the institution or shareholder at the time of investment that purchases are being combined.

If an additional purchase of Shares is made, the Fund will consider the previous purchases still invested in the Fund. For example, if a shareholder already owns Shares having a current value at the public offering price of $90,000 and he purchases $10,000 more at the current public offering price, the sales charge on the additional purchase according to the schedule now in effect would be 3.75%, not 4.50%.

To receive the sales charge reduction, Federated Securities Corp. must be notified by the shareholder in writing or by his financial institution at the time the purchase is made that Shares are already owned or that purchases are being combined. The Fund will reduce the sales charge after it confirms the purchases.

LETTER OF INTENT. If a shareholder intends to purchase at least $100,000 of shares in the funds in the Liberty Family of Funds over the next 13 months, the sales charge may be reduced by signing a letter of intent to that effect. This letter of intent includes a provision for a sales charge adjustment depending on the amount actually purchased within the 13-month period and a provision for the custodian to hold 4.50% of the total amount intended to be purchased in escrow (in Shares) until such purchase is completed.

The 4.50% held in escrow will be applied to the shareholder's account at the end of the 13-month period unless the amount specified in the letter of intent is not purchased. In this event, an appropriate number of escrowed Shares may be redeemed in order to realize the difference in the sales charge.

This letter of intent will not obligate the shareholder to purchase Shares, but if he does, each purchase during the period will be at the sales charge applicable to the total amount intended to be purchased. This letter may be dated as of a prior date to include any purchases made within the past 90 days toward the dollar fulfillment of the letter of intent. Prior trade purchases will not be adjusted.

REINVESTMENT PRIVILEGE. If Shares have been redeemed, the shareholder has a one-time right, within 120 days, to reinvest the redemption proceeds at the next-determined net asset value without any sales charge. Federated Securities Corp. must be notified by the shareholder in writing or by his financial institution of the reinvestment in order to eliminate a sales charge. If the shareholder redeems his Shares, there may be tax consequences.

PURCHASES WITH PROCEEDS FROM REDEMPTIONS OF UNAFFILIATED MUTUAL FUND SHARES. Investors may purchase Shares at net asset value, without a sales charge, with the proceeds from the redemption of shares of a mutual fund which was sold with

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a sales charge or commission and was not distributed by Federated Securities Corp. (This does not include shares which were or would be subject to a contingent deferred sales charge upon redemption.) The purchase must be made within 60 days of the redemption, and Federated Securities Corp. must be notified by the investor in writing, or by his financial institution, at the time the purchase is made. Federated Securities Corp. will offer to pay dealers an amount equal to .50 of 1% of the net asset value of Shares purchased by their clients or customers in this manner.

CONCURRENT PURCHASES. For purposes of qualifying for a sales charge reduction, a shareholder has the privilege of combining concurrent purchases of two or more funds in the Liberty Family of Funds, the purchase price of which includes a sales charge. For example, if a shareholder concurrently invested $30,000 in one of the other Liberty Funds which includes a sales charge, and $70,000 in this Fund, the sales charge would be calculated based on a $100,000 investment.

To receive this sales charge reduction, Federated Securities Corp. must be notified by the shareholder in writing or by his financial institution at the time the concurrent purchases are made. The Fund will reduce the sales charge after it confirms the purchases.

SYSTEMATIC INVESTMENT PROGRAM

Once an account has been opened, shareholders may add to their investment on a regular basis in a minimum amount of $100. Under this program, funds may be automatically withdrawn periodically from the shareholder's checking account and invested in Shares at the net asset value next determined after an order is received by the transfer agent, plus the applicable sales charge. A shareholder may apply for participation in this program through his financial institution or directly through the Fund.

CERTIFICATES AND CONFIRMATIONS

As transfer agent for the Fund, Federated Services Company maintains a Share account for each shareholder of record. Share certificates are not issued unless requested in writing to Federated Services Company.

Detailed confirmations of each purchase or redemption are sent to each shareholder. Quarterly confirmations are sent to report dividends paid during that quarter.

DIVIDENDS AND DISTRIBUTIONS

Dividends are declared and paid quarterly to all shareholders invested in the Fund on the record date. Distributions of any net realized long-term capital gains will be made at least once every twelve months. Dividends and distributions are automatically reinvested in additional Shares on payment dates at the ex-dividend date net asset value without a sales charge, unless shareholders request cash payments on the new account form or by writing to the dividend disbursing agent. All shareholders on the record date are entitled to the dividend. If Shares are redeemed or exchanged prior to the record date or purchased after the record date, those Shares are not entitled to that quarter's dividend.

RETIREMENT PLANS

Shares of the Fund can be purchased as an investment for retirement plans or for IRA accounts. For further details, including prototype retirement plans, contact the Fund and consult a tax adviser.

EXCHANGE PRIVILEGE
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Class A shareholders may exchange all or some of their Shares for Class A Shares of other funds in the Liberty Family of Funds. They may also exchange into certain of the Funds (as defined in the Statement of Additional Information) for which affiliates of Federated Investors serve as principal underwriter. Certain of the Funds are sold with a sales charge different from that of the Fund's or with no sales charge; exchanges into these Funds are made at net asset value plus the difference between the Fund's sales and redemption fee charge already paid and any sales charge of the Fund into which the Shares are to be exchanged, if higher. Neither the Fund nor any of the funds in the Liberty Family of Funds imposes any additional fees on exchanges. Participants in a plan under the Liberty Family Retirement Program may exchange all or some of their Shares for

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Class A Shares of other funds offered under the plan at net asset value without a redemption fee.

REDUCED SALES CHARGE

If a shareholder making such an exchange qualifies for a reduction of the sales charge, Federated Securities Corp. must be notified by the shareholder in writing or by his financial institution.

REQUIREMENTS FOR EXCHANGE

Shareholders using this privilege must exchange Shares having a net asset value of at least $500. Before the exchange, the shareholder must receive a prospectus of the fund for which the exchange is being made.

This privilege is available to shareholders who reside in any state in which the fund shares being acquired may be sold. Upon receipt of proper instructions and required supporting documents, Shares submitted for exchange are redeemed and the proceeds invested in shares of the other fund. The exchange privilege may be modified or terminated at any time. Shareholders will be notified of the modification or termination of the exchange privilege.

Further information on the exchange privilege and prospectuses for the Liberty Family of Funds or certain Federated Funds are available by contacting the Fund.

TAX CONSEQUENCES

An exercise of the exchange privilege is treated as a sale for federal income tax purposes. Depending on the circumstances, a short-term or long-term capital gain or loss may be realized.

MAKING AN EXCHANGE

Instructions for exchanges for the Liberty Family of Funds and certain of the Funds may be given in writing or by telephone. Written instructions may require a signature guarantee. Shareholders may have difficulty in making exchanges by telephone through brokers and other financial institutions during times of drastic economic or market changes. If a shareholder cannot contact his broker or financial institution by telephone, it is recommended that an exchange request be made in writing and sent by overnight mail to Boston Financial Data Services, Inc., Attention: Federated Division, P.O. Box 8604, Boston, Massachusetts 02266-8604.

Instructions for exchanges for the Liberty Family Retirement Program should be given to the plan administrator.

TELEPHONE INSTRUCTIONS. Telephone instructions made by the investor may be carried out only if a telephone authorization form completed by the investor is on file with the transfer agent. If the instructions are given by a broker, a telephone authorization form completed by the broker must be on file with the transfer agent. Shares may be exchanged between two funds by telephone only if the two funds have identical shareholder registrations. Telephone exchange instructions may be recorded. If reasonable procedures are not followed by the Fund, it may be liable for losses due to unauthorized or fraudulent telephone instructions.

Any Shares held in certificate form cannot be exchanged by telephone but must be forwarded to the transfer agent and deposited to the shareholder's account before being exchanged. Telephone exchange instructions are recorded and will be binding upon the shareholder. Such instructions will be processed as of 4:00 P.M. (Eastern time) and must be received by the transfer agent before that time for Shares to be exchanged the same day. Shareholders exchanging into the Fund will not receive any dividend that is payable to shareholders of record on that date. This privilege may be modified or terminated at any time.

REDEEMING CLASS A SHARES
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The Fund redeems Shares at their net asset value, less any applicable redemption fee, next determined after the Fund receives the redemption request. Redemptions will be made on days on which the Fund computes its net asset value. Redemptions can be made through a financial institution or directly from the Fund. Redemption requests must be received in proper form. Redemptions of Shares held through the Liberty Family Retirement Program will be governed by the requirements of the respective plans.

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THROUGH A FINANCIAL INSTITUTION

A shareholder may redeem Shares by calling his financial institution (such as a bank or an investment dealer) to request the redemption. Shares will be redeemed at the net asset value, less any applicable redemption fee, next determined after the Fund receives the redemption request from the financial institution. Redemption requests through a registered broker/dealer must be received by the broker before 4:00 P.M. (Eastern time) and must be transmitted by the broker to the Fund before 5:00 P.M. (Eastern time) in order for Shares to be redeemed at that day's net asset value. Redemption requests through other financial institutions must be received by the financial institution and transmitted to the Fund before 4:00 P.M. (Eastern time) in order for Shares to be redeemed at that day's net asset value. The financial institution is responsible for promptly submitting redemption requests and providing proper written redemption instructions to the Fund. The financial institution may charge customary fees and commissions for this service.

DIRECTLY FROM THE FUND

BY TELEPHONE. Shareholders who have not purchased through a financial institution may redeem their Shares by telephoning the transfer agent. The proceeds will be mailed to the shareholder's address of record or wire transferred to the shareholder's account at a domestic commercial bank that is a member of the Federal Reserve System, normally within one business day, but in no event longer than seven days after the request. The minimum amount for a wire transfer is $1,000. If at any time the Fund shall determine it necessary to terminate or modify this method of redemption, shareholders would be promptly notified.

An authorization form permitting the transfer agent to accept telephone requests must first be completed. Authorization forms and information on this service are available from Federated Securities Corp. Telephone redemption instructions may be recorded. If reasonable procedures are not followed by the Fund, it may be liable for losses due to unauthorized or fraudulent telephone instructions.

In the event of drastic economic or market changes, a shareholder may experience difficulty in redeeming by telephone. If such a case should occur, another method of redemption, such as redeeming by mail, should be considered.

BY MAIL. Shares may also be redeemed by sending a written request to the transfer agent. The written request should include the shareholder's name, the Fund and class of shares' name, the account number, and the Share or dollar amount requested, and should be signed exactly as the Shares are registered.

If Share certificates have been issued, they must be properly endorsed and should be sent by registered or certified mail with the written request. Shareholders should contact the Fund for assistance in redeeming by mail.

SIGNATURES. Shareholders requesting a redemption of $50,000 or more, a redemption of any amount to be sent to an address other than that on record with the Fund, or a redemption payable other than to the shareholder of record must have signatures on written redemption requests guaranteed by:

a trust company or commercial bank whose deposits are insured by the Bank Insurance Fund ("BIF");

a member of the New York, American, Boston, Midwest or Pacific Stock Exchange;

a savings bank or savings and loan association whose deposits are insured by the Savings Association Insurance Fund ("SAIF"); or

any other "eligible guarantor institution," as defined in the Securities Exchange Act of 1934.

The Fund does not accept signatures guaranteed by a notary public.

The Fund and its transfer agent have adopted standards for accepting signature guarantees from the above institutions. The Fund may elect in the future to limit eligible signature guarantors to institutions that are members of a signature guarantee program. The Fund and its transfer agent reserve the right to amend these standards at any time without notice.

RECEIVING PAYMENT. Normally, a check for the proceeds is mailed within one business day, but in no event more than seven days, after receipt of a proper

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written redemption request.

REDEMPTION FEE

Shareholders who purchased Shares with the proceeds of a redemption of shares of a mutual fund sold with a sales charge or commission and not distributed by Federated Securities Corp. will be charged a redemption fee by the Fund's distributor of .50 of 1% for redemptions made within one year from the date of purchase. The redemption fee will be calculated based upon the lesser of the original purchase price of the Shares or the net asset value of the Shares when redeemed.

The redemption fee will not be imposed on Shares acquired through reinvestment of dividends or distribution of long-term capital gains. Redemptions are deemed to have occurred in the following order: 1) Shares acquired through the reinvestment of dividends and long-term capital gains, 2) purchases of Shares occurring more than one year before the date of redemption, 3) purchases of Shares within the previous year without the use of redemption proceeds as described above, and 4) purchases of Shares within the previous year through the use of redemption proceeds as described above.
The redemption fee will not be imposed when a redemption results from a tax-free return under the following circumstances: (i) a total or partial distribution from a qualified plan, other than an IRA, Keogh Plan, or a custodial account, following retirement, (ii) a total or partial distribution from an IRA, Keogh Plan, or a custodial account, after the beneficial owner attains age 59-1/2; or (iii) from the death or total and permanent disability of the beneficial owner. The exemption from the redemption fee for qualified plans, an IRA, Keogh Plan, or a custodial account does not extend to account transfers, rollovers, and other redemptions made for purposes of reinvestment.

A redemption fee will not be charged in connection with exchanges of Shares for Class A Shares in other Liberty Family Funds or Liberty Family Retirement Program funds, or in connection with redemptions by the Fund of accounts with low balances. No redemption fee will be charged for redemption from the Liberty Family Retirement Program.

REDEMPTION BEFORE PURCHASE INSTRUMENTS CLEAR

When Shares are purchased by check or through the Automated Clearing House, the proceeds from the redemption of those Shares are not available, and the Shares may not be exchanged, until the Fund or its agents are reasonably certain that the purchase check has cleared, which could take up to ten calendar days.

SYSTEMATIC WITHDRAWAL PROGRAM

Shareholders who desire to receive payments of a predetermined amount not less than $100 may take advantage of the Systematic Withdrawal Program. Under this program, Shares are redeemed to provide for periodic withdrawal payments in an amount directed by the shareholder. Depending upon the amount of the withdrawal payments, the amount of dividends paid and capital gains distributions with respect to Shares, and the fluctuation of the net asset value of Shares redeemed under this program, redemptions may reduce, and eventually deplete, the shareholder's investment in the Shares. For this reason, payments under this program should not be considered as yield or income on the shareholder's investment in Shares. To be eligible to participate in this program, a shareholder must have an account value of at least $10,000. A shareholder may apply for participation in this program through his financial institution. Due to the fact that Shares are sold with a sales charge, it is not advisable for shareholders to be purchasing Shares while participating in this program.

ACCOUNTS WITH LOW BALANCES

Due to the high cost of maintaining accounts with low balances, the Fund may redeem Shares in any account, except retirement accounts, and pay the proceeds to the shareholder if the account balance falls below the required minimum value of $500. This requirement does not apply, however, if the balance falls below $500 because of changes in the Fund's net asset value.

Before Shares are redeemed to close an account, the shareholder is notified in writing and allowed 30 days to purchase additional Shares to meet the minimum requirement.

SHAREHOLDER INFORMATION
- ---

VOTING RIGHTS

Each Share gives the shareholder one vote in Director elections and other

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matters submitted to shareholders for vote. All shares of each portfolio or class in the Corporation have equal voting rights, except that in matters affecting only a particular Fund or class, only shares of that Fund or class are entitled to vote. As of November 29, 1993, Liberty Bank & Trust, custodian for IRM Retirement Plans, may be deemed to control the Fund due to its record ownership of Investment Shares of the Fund.

As a Maryland corporation, the Corporation is not required to hold annual shareholder meetings. Shareholder approval will be sought only for certain changes in the Fund's operation and for the election of Directors under certain circumstances.

Directors may be removed by a two-thirds vote of the number of Directors prior to such removal or by a two-thirds vote of the shareholders at a special meeting. A special meeting of shareholders shall be called by the Directors upon the written request of shareholders owning at least 10% of the Corporation's outstanding shares entitled to vote.

TAX INFORMATION

FEDERAL INCOME TAX

The Fund will pay no federal income tax because the Fund expects to meet the requirements of the Internal Revenue Code, as amended, applicable to regulated investment companies and to receive the special tax treatment afforded to such companies.

The Fund will be treated as a single, separate entity for federal income tax purposes so that income (including capital gains) and losses realized by the Corporation's other portfolios, if any, will not be combined for tax purposes with those realized by the Fund.

Unless otherwise exempt, shareholders are required to pay federal income tax on any dividends and other distributions, including capital gains distributions, received. This applies whether dividends and distributions are received in cash or as additional Shares. Distributions representing long-term capital gains, if any, will be taxable to shareholders as long-term capital gains no matter how long the shareholders have held the Shares. No federal income tax is due on any dividends earned in an IRA or qualified retirement plan until distributed.

PENNSYLVANIA CORPORATE AND PERSONAL PROPERTY TAXES

In the opinion of Houston, Houston & Donnelly, counsel to the Corporation:

> The Corporation is subject to the Pennsylvania corporate franchise tax; and
>
> Fund Shares are exempt from personal property taxes imposed by counties, municipalities, and school districts in Pennsylvania.

Shareholders are urged to consult their own tax advisers regarding the status of their accounts under state and local tax laws.

PERFORMANCE INFORMATION

From time to time the Fund advertises the total return and yield for Class A Shares.

Total return represents the change, over a specified period of time, in the value of an investment in Class A Shares after reinvesting all income and capital gains distributions. It is calculated by dividing that change by the initial investment and is expressed as a percentage.

The yield of Class A Shares is calculated by dividing the net investment income per Share (as defined by the Securities and Exchange Commission) earned by Class A Shares over a thirty-day period by the maximum offering price per Share on the last day of the period. This number is then annualized using semi-annual compounding. The yield does not necessarily reflect income actually earned by Class A Shares and, therefore, may not correlate to the dividends or other distributions paid to shareholders.

The performance information reflects the effect of the maximum sales load and other similar non-recurring charges, such as the redemption fee, which, if excluded, would increase the total return and yield.

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Total return and yield will be calculated separately for Class A Shares, Investment Shares, and Class C Shares. Because Class A Shares are subject to a 12b-1 fee, total return and yield for Investment Shares may exceed that of Class A Shares for the same period. Because Class C Shares are subject to a shareholder services fee and a higher 12b-1 fee than that of the Class A Shares, total return and yield for Class A Shares may exceed that of Class C Shares for the same period.

From time to time, the Fund may advertise the performance of Class A Shares using certain reporting services and/or compare the performance of Class A Shares to certain indices.

OTHER CLASSES OF SHARES

The Fund does not presently offer Class B shares.

Class C Shares are sold primarily to customers of financial institutions at net asset value with no initial sales charge. Class C Shares may be subject to a contingent deferred sales charge of up to 1.00%, as discussed in the Class C prospectus. Class C Shares are distributed pursuant to a Rule 12b-1 Plan adopted by the Fund whereby the distributor is paid a fee of up to .75 of 1%, in addition to a shareholder services fee of .25 of 1% of the Class C Shares' average daily net assets. Class C Shares are subject to a minimum initial investment of $1,500, unless the investment is in a retirement account, in which case the minimum initial investment is $50.

Investment Shares are sold to accounts for which financial institutions act in an agency capacity at net asset value plus a maximum sales charge of 5.75% and are distributed without a 12b-1 fee, a shareholder services fee, a redemption fee or a contingent deferred sales charge. Investment Shares are subject to a minimum initial investment of $500, except for retirement accounts, in which case the minimum initial investment is $50.

Financial institutions and brokers providing sales and/or administrative services may receive different compensation from one class of shares of the Fund than from another class of shares. The distributor may pay an administrative fee to a financial institution or broker for administrative services provided to the Investment Shares class, and may pay such a fee for administrative services provided to the Class A Shares class, in addition to fees paid pursuant to the Rule 12b-1 Plan. Any fee paid by the distributor for administrative services will not be an expense of the class, but will be reimbursed to the distributor by the investment adviser.

The amount of dividends payable to holders of Investment Shares will generally exceed that of Class A Shares and of Class C Shares by the difference between Class Expenses borne by shares of each respective class.

The stated advisory fee is the same for all classes of the Fund.

CAPITAL GROWTH FUND
FINANCIAL HIGHLIGHTS--CLASS C SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT THE PERIOD)

Reference is made to Report of Ernst & Young, Independent Auditors, on page 39.

<TABLE>
<CAPTION>

<S>	YEAR ENDED OCTOBER 31, 1993** <C>
NET ASSET VALUE, BEGINNING OF PERIOD	$ 12.39
INCOME FROM INVESTMENT OPERATIONS	
Net investment income	(0.01)
Net realized and unrealized gain on investments	0.98
Total from investment operations	0.97
NET ASSET VALUE, END OF PERIOD	$ 13.36
TOTAL RETURN*	7.83%(b)

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RATIOS TO AVERAGE NET ASSETS	
Expenses	2.00%(a)
Net investment income	(0.18)%(a)
Expense waiver/reimbursement (c)	2.37%(a)
SUPPLEMENTAL DATA	
Net assets, end of period (000 omitted)	$ 314
Portfolio turnover rate	%74

</TABLE>

* Based on net asset value which does not reflect the sales load or contingent deferred sales charge, if applicable.

** Reflects operations from April 13, 1993 (date of initial public investment) to October 31, 1993.

(a) Computed on an annualized basis.

(b) Cumulative total return.

(c) This expense decrease is reflected in both the expense and net investment income ratios shown above (Note 5).

Further information about the Fund's performance is contained in the Fund's annual report for the fiscal year ended October 31, 1993, which can be obtained free of charge.

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
FINANCIAL HIGHLIGHTS--INVESTMENT SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)
Reference is made to Report of Ernst & Young, Independent Auditors, on page 39.

<TABLE>
<CAPTION>

<S>	<C>	YEAR ENDED OCTOBER 31, <C>		YEAR ENDED DECEMBER 31, <C>	<C>
	1993	1992***	1991	1990	1989**
NET ASSET VALUE, BEGINNING OF PERIOD	$ 11.84	$ 12.00	$ 9.11	$ 9.97	$ 10.00
INCOME FROM INVESTMENT OPERATIONS					
Net investment income	0.13	0.12	0.31	0.32	0.03
Net realized and unrealized gain (loss) on investments	1.71	(0.18)	2.91	(0.86)	(0.04)
Total from investment operations	1.84	(0.06)	3.22	(0.54)	(0.01)
LESS DISTRIBUTIONS					
Dividends to shareholders from net investment income	(0.14)	(0.10)	(0.30)	(0.32)	(0.02)
Distributions for shareholders from net realized gain on investment transactions	(0.16)	--	(0.02)	--	--
Distributions in excess of net investment income	--	--	(0.01)(a)	--	--
TOTAL DISTRIBUTIONS	(0.30)	(0.10)	(0.33)	(0.32)	(0.02)
NET ASSET VALUE, END OF PERIOD	$ 13.38	$ 11.84	$ 12.00	$ 9.11	$ 9.97
TOTAL RETURN*	15.70%	-0.53%(c)	35.68%	-5.43%	-0.02%(c)
RATIOS TO AVERAGE NET ASSETS					
Expenses	1.00%	1.00%(b)	1.00%	1.00%	1.19%(b)
Net investment income	0.98%	1.28%(b)	2.73%	3.54%	4.21%(b)
Expense waiver/reimbursement (d)	2.37%	1.50%(b)	1.50%	1.50%	0.78%(b)
SUPPLEMENTAL DATA					

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Net assets, end of period (000 omitted)	$14,836	$18,161	$13,513	$7,484	$5,525
Portfolio turnover rate	74 %	29 %	57%	83%	0 %

</TABLE>

* Based on net asset value which does not reflect the sales load or redemption fee, if applicable.

** Reflects operations for the period from November 30, 1989 (date of initial public investment) to December 31, 1989.

*** During the ten month period, the Fund changed in fiscal year-end from December 31 to October 31.

(a) Distributions in excess of net investment income for the period ended December 31, 1991 were a result of certain book and tax timing differences. These distributions did not represent a return of capital for federal income tax purposes.

(b) Computed on an annualized basis.

(c) Cumulative total return.

(d) This expense decrease is reflected in both the expense and net investment income ratios shown above (Note 5).

Further information about the Fund's performance is contained in the Fund's annual report for the fiscal year ended October 31, 1993, which can be obtained free of charge.
(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
PORTFOLIO OF INVESTMENTS
OCTOBER 31, 1993

<TABLE>
<CAPTION>

SHARES		VALUE
<C>	<S>	<C>
<CAPTION>		
COMMON STOCKS--79.6%		
<C>	<S>	<C>
	AUTOMOTIVE PARTS--3.4%	
40,000	Allen Group, Inc.	$ 900,000
	BANKING & FINANCE--10.0%	
30,000	MBNA Corp.	1,023,750
15,000	NationsBank Corp.	699,375
36,500	AT&T Capital Corp.	953,562
	Total	2,676,687
	BASIC INDUSTRY--6.6%	
20,000	Cleveland-Cliffs, Inc.	720,000
15,000	Harsco Corp.	630,000
15,000	Medusa Corp.	412,500
	Total	1,762,500
	CAPITAL GOODS--17.6%	
35,000	Alliant Techsystems, Inc.**	1,019,375
15,000	Dover Corp.	862,500
30,000	Genlyte Group, Inc.**	112,500
25,000	Greenfield Industries, Inc.	412,500

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30,000	Kenetech Corp.**	468,750
25,000	MagneTek, Inc.**	378,125
10,000	Sensormatic Electronics Corp.	465,000
10,000	Stewart & Stevenson Services, Inc.	452,500
25,000	Valence Technology, Inc.**	531,250
	Total	4,702,500
	CONSUMER GOODS--RETAIL--6.8%	
25,000	Blockbuster Entertainment Corp.	709,375
75,000	Service Merchandise, Inc.**	750,000
	CONSUMER GOODS--RETAIL--CONTINUED	
25,000	Showbiz Pizza Time, Inc.**	$ 362,500
	Total	1,821,875
	CONSUMER PRODUCTS--13.1%	
15,000	Dial Corp.	575,625
75,000	Dr. Pepper/7-Up Holding Co.**	1,565,625
75,000	ADT, Limited**	675,000
10,000	Nike, Inc.	483,750
10,000	Starter Corp.**	202,500
	Total	3,502,500
	ENERGY--2.3%	
25,000	Valero Energy Corp.	628,125
	HEALTH CARE--12.5%	
20,000	Genentech, Inc.**	922,500
25,000	Genetics Institute, Inc.**	1,062,500
40,000	National Health Laboratories, Inc.	545,000
15,000	Spacelabs Medical, Inc.**	356,250
10,000	U.S. Healthcare, Inc.	463,750
	Total	3,350,000
	INSURANCE--2.0%	
15,000	Travelers Corp.	528,750
	TRANSPORTATION--3.1%	
15,000	American President Companies, Ltd.	832,500
	WASTE DISPOSAL--2.2%	
150,000	Chambers Development, Inc.**	600,000
	TOTAL COMMON STOCKS (IDENTIFIED COST, $17,710,139)	21,305,437

CONVERTIBLE SECURITIES--15.5%

	CONSUMER PRODUCTS--9.0%	
$ 3,000,000	Coleman Worldwide Corp. LYON's, 5/27/2013	$ 825,000
400,000	Mattel, Inc., Conv. Deb., 8.00%, 3/15/2001	728,000
20,000	Sun America Inc. $2.68 PERCs, 3/15/2001	850,000
	Total	2,403,000

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	HEALTH CARE--2.6%	
1,000,000	Roche Holdings Inc. 4.75% LYON, 9/23/2008	523,750
974	Schering-Plough Corp., Warrant Units, 12/2/96**	176,294
	Total	700,044
	TRANSPORTATION--3.9%	
800,000	Greyhound Lines, Inc., Conv. Deb., 8.56% 3/31/2007	1,048,000
	TOTAL CONVERTIBLE SECURITIES (IDENTIFIED COST, $3,553,444)	4,151,044
*REPURCHASE AGREEMENT--2.6%		
685,000	J.P. Morgan Securities, Inc., 2.99%, dated 10/29/93, due 11/1/93 (at amortized cost) (Note 2B)	685,000
	TOTAL INVESTMENTS (IDENTIFIED COST $21,948,583)	$ 26,141,481\

</TABLE>

* The repurchase agreement is fully collateralized by U.S. government and/or agency obligations based on market prices at the date of the portfolio. The investment in the repurchase agreement is through participation in a joint account with other Federated funds.

** Non-income producing.

\ The cost of investments for federal tax purposes amounts to $21,948,583. The net unrealized appreciation of investments on a federal tax basis amounts to $4,192,898, which is comprised of $5,755,663 appreciation and $1,562,765 depreciation at October 31, 1993.

LYON--Liquid Yield Option Note

Note: The categories of investments are shown as a percentage of net assets ($26,758,883) at October 31, 1993.

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
STATEMENT OF ASSETS AND LIABILITIES
OCTOBER 31, 1993

<TABLE>

<S>	<C>	<C>
ASSETS:		
Investments, at value (Notes 2A and 2B) (identified and tax cost, $21,948,583)		$ 26,141,481
Cash		5,998
Receivable for investments sold		528,442
Receivable for capital stock sold		83,104
Dividends and interest receivable		21,836
Deferred expenses (Note 2F)		434
Total assets		26,781,295
LIABILITIES:		
Payable for capital stock redeemed	$ 5,497	
Accrued expenses	16,915	
Total liabilities		22,412
NET ASSETS for 1,999,623 shares of capital stock outstanding		$ 26,758,883
NET ASSETS CONSIST OF:		
Paid-in capital		$ 22,241,370
Net unrealized appreciation of investments		4,192,898

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Accumulated undistributed net realized gain on investments	313,497
Undistributed net investment income	11,118
Total	$ 26,758,883
NET ASSET VALUE AND REDEMPTION PRICE Per Share:	
Investment Shares (net assets of $14,836,418 / 1,108,550 SHARES OF CAPITAL STOCK OUTSTANDING)	$13.38
CLASS A SHARES (NET ASSETS OF $11,608,735 / 867,599 SHARES OF CAPITAL STOCK OUTSTANDING)	$13.38
CLASS C SHARES (NET ASSETS OF $313,730 / 23,474 SHARES OF CAPITAL STOCK OUTSTANDING)	$13.36
COMPUTATION OF OFFERING PRICE:	
Investment Shares Offering Price Per Share (100/94.25 of $13.38)*	$14.20
Class A Shares Offering Price Per Share (100/95.50 of $13.38)*	$14.01

</TABLE>

* On sales of $10,000 or more, the offering price is reduced as stated under "What Shares Cost" in the prospectus.

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
STATEMENT OF OPERATIONS
YEAR ENDED OCTOBER 31, 1993

<TABLE>

<S>		<C>	<C>	<C>
INVESTMENT INCOME:				
Dividends				$ 285,993
Interest				225,715
Total investment income (Note 2C)				511,708
EXPENSES:				
Investment advisory fee (Note 5)			$ 165,261	
Directors fees			5,265	
Administrative personnel and services (Note 5)			240,157	
Custodian, transfer and dividend disbursing agent fees and expenses			192,808	
Fund share registration costs			111,451	
Auditing fees			18,067	
Legal fees			14,841	
Distribution services fees (Note 5)			26,209	
Printing and postage			112,187	
Insurance premiums			7,662	
Taxes			480	
Miscellaneous			2,548	
Total expenses			896,936	
Deduct--				
Waiver of investment advisory fee (Note 5)		$ 165,261		
Reimbursement of other operating expenses (Note 5)		446,749	612,010	
Net expenses				284,926
Net investment income				226,782
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:				

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Net realized gain on investment transactions (identified cost basis)	303,564
Net change in unrealized appreciation on investments	3,026,413
Net realized and unrealized gain on investments	3,329,977
Change in net assets resulting from operations	$ 3,556,759

</TABLE>

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
STATEMENT OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

<S>	YEAR ENDED OCTOBER 31, <C> 1993	<C> 1992*
INCREASE (DECREASE) IN NET ASSETS:		
OPERATIONS--		
Net investment income	$ 226,782	$ 205,334
Net realized gain on investment transactions ($303,564 and $340,685 net gain, respectively, as computed for federal income tax purposes)	303,564	293,810
Change in unrealized appreciation (depreciation) of investments	3,026,413	(932,519)
Change in net assets resulting from operations	3,556,759	(433,375)
DISTRIBUTIONS TO SHAREHOLDERS (NOTE 3)--		
Dividends to shareholders from net investment income:		
Investment Shares	(174,344)	(132,621)
Class A Shares	(76,306)	(27,448)
Dividends to shareholders from net realized gain on investment transactions:		
Investment Shares	(245,773)	--
Class A Shares	(95,185)	--
Change in net assets from distributions to shareholders	(591,608)	(160,069)
FUND SHARE (PRINCIPAL) TRANSACTIONS (NOTE 4)--		
Proceeds from sale of shares	11,839,537	13,308,632
Net asset value of shares issued to shareholders electing to receive payment of dividends in Fund shares	531,548	150,206
Cost of shares redeemed	(13,278,176)	(1,677,459)
Change in net assets from Fund share transactions	(907,091)	11,781,379
Change in net assets	2,058,060	11,187,935
NET ASSETS:		
Beginning of period	24,700,823	13,512,888
End of period (including undistributed net investment income of $11,118 and $34,986, respectively)	$ 26,758,883	$ 24,700,823

</TABLE>

* Ten months ended October 31, 1992.

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 1993

(1) ORGANIZATION

Investment Series Funds, Inc. (the "Corporation") is registered under the

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Investment Company Act of 1940, as amended, as a diversified, open-end, management investment company with two portfolios. The financial statements included herein present only those of Capital Growth Fund (the "Fund"). The financial statements of the other portfolios are presented separately. The assets of each portfolio are segregated and a shareholder's interest is limited to the portfolio in which shares are held.

Capital Growth Fund provides three classes of Shares ("Investment Shares", "Class A Shares", and "Class C Shares"). Class A and Class C Shares are identical in all respects to Investment Shares except that Class A and Class C Shares are sold pursuant to a distribution plan ("Plan") adopted in accordance with the Investment Company Act of 1940 Rule 12b-1. Class A Shares are subject to a maximum sales load of 4.50%, a 12b-1 fee of 0.25% and may be subject to a redemption fee but are not subject to a shareholder servicing fee. Class C Shares are not subject to a sales load but are subject to a 12b-1 fee of 0.75%, a shareholder servicing fee of 0.25%, and a contingent deferred sales charge of 1.00%.

On December 18, 1992, Shareholders of the Fund met and approved the reorganization of the Fund as a portfolio of Investment Series Funds, Inc., a Maryland Corporation.

(2) SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principals.

A. INVESTMENT VALUATIONS--Listed equity securities are valued at last sale prices reported on national securities exchanges. Unlisted securities or listed securities for which there were no sales on the valuation date are generally valued at the mean between bid and asked prices. Short-term obligations are valued at the mean between bid and asked prices furnished by an independent pricing service. However, short-term obligations with maturities of sixty days or less are valued at amortized cost, which approximates value.

B. REPURCHASE AGREEMENTS--It is the policy of the Fund to require the custodian bank to take possession, to have legally segregated in the Federal Reserve Book Entry System or to have segregated within the custodian bank's vault, all securities held as collateral in support of repurchase and reverse repurchase agreement investments. Additionally, procedures have been established by the Fund to monitor, on a daily basis, the market value of each repurchase agreement's underlying collateral to ensure the value at least equals the principal amount of the repurchase transaction, including accrued interest.

   The Fund is also permitted to enter into reverse repurchase agreements, in which the Fund sells U.S. government securities to financial institutions and agrees to repurchase the securities at an agreed upon price and date.

   The Fund will only enter into repurchase and reverse repurchase agreements with banks and other recognized financial institutions such as broker/dealers which are deemed by the Fund's adviser to be creditworthy pursuant to guidelines established by the Directors. Risks may arise from the potential inability of counterparties to honor the terms of a repurchase agreements. Accordingly, the Fund could receive less than the repurchase price on the sale of collateral securities.

C. INCOME--Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis and includes discount earned, less any premium.

D. FEDERAL TAXES--It is the Fund's policy to comply with the provisions of the Internal Revenue Code, applicable to regulated investment companies and to distribute to shareholders each year substantially all of its taxable income, including any net realized gain on investments. Accordingly, no provision for federal tax is necessary.

E. WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS--The Fund may engage in when-issued or delayed delivery transactions. The Fund records when-issued securities and maintains security positions such that sufficient liquid assets will be available to make payment for the securities purchased. Securities purchased on a when-issued or delayed delivery basis are marked to market daily and begin earning interest on the settlement date.

F. DEFERRED EXPENSES--Costs incurred by the Fund with respect to registration of its shares in the first fiscal year, excluding the initial expenses of registering the shares, have been deferred and are being amortized using the straight-line method over a period of five years from the Funds commencement date.

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G. OTHER--Investment transactions are accounted for on the date of the transaction.

(3) DIVIDENDS AND DISTRIBUTIONS

Dividends from net investment income are declared and paid quarterly. Distributions of any net realized capital gains will be made at least once every twelve months. Dividends and capital gain distributions, if any, are recorded on the ex-dividend date.

(4) CAPITAL STOCK

At October 31, 1993, there were 1,000,000,000 of ($.0001) par value capital stock authorized. Transactions in capital stock were as follows:

<TABLE>
<CAPTION>

	YEAR ENDED 10/31/93		YEAR ENDED 10/31/92*	
<S>	<C>	<C>	<C>	<C>
INVESTMENT SHARES	SHARES	AMOUNT	SHARES	AMOUNT
Shares outstanding, beginning of period	1,533,399	$ 16,319,992	1,125,747	$ 11,367,082
Shares sold	341,272	4,316,048	484,535	5,894,279
Shares issued to shareholders electing to receive payment of dividends in Fund shares	30,603	380,718	10,536	129,297
Shares redeemed	(796,724)	(9,811,729)	(87,419)	(1,070,666)
Shares outstanding, end of period	1,108,550	$ 11,205,029	1,533,399	$ 16,319,992

</TABLE>

<TABLE>
<CAPTION>

	YEAR ENDED 10/31/93		YEAR ENDED 10/31/92*	
<S>	<C>	<C>	<C>	<C>
CLASS A SHARES	SHARES	AMOUNT	SHARES	AMOUNT
Shares outstanding, beginning of period	552,251	$ 6,828,469	--	$ --
Shares sold	575,342	7,204,386	599,919	7,414,353
Shares issued to shareholders electing to receive payment of dividends in Fund shares	12,091	150,830	1,714	20,909
Shares redeemed	(272,085)	(3,450,895)	(49,382)	(606,793)
Shares outstanding, end of period	867,599	$ 10,732,790	552,251	$ 6,828,469

</TABLE>

* For the ten months ended October 31, 1992.

<TABLE>
<CAPTION>

	YEAR ENDED 10/31/93**			
<S>	<C>	<C>	<C>	<C>
CLASS C SHARES	SHARES	AMOUNT		
Shares outstanding, beginning of period	--	$ --		
Shares sold	24,661	319,103		
Shares issued to shareholders electing to receive payment of dividends in Fund shares	--	--		
Shares redeemed	(1,187)	(15,552)		
Shares outstanding, end of period	23,474	$ 303,551		

</TABLE>

** For the period from April 13, 1993 (date of initial public investment) to October 31, 1993.

(5) INVESTMENT ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

Federated Advisers ("Adviser"), the Fund's investment adviser, receives for its services an annual investment advisory fee equal to (a) 0.55% of the average daily net assets of the Fund, and (b) 4.5% of the gross income of the Fund. The Adviser has voluntarily agreed to waive a portion or all of its fee and

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reimburse the Fund a portion of its annual operating expenses. The Adviser can terminate this voluntary waiver and reimbursement at any time at its sole discretion. For the period ended October 31, 1993, the investment advisory fee amounted to $165,261, all of which was voluntarily waived. In addition, the Adviser voluntarily reimbursed $446,749 of the Fund's other operating expenses.

Organization expenses ($13,190) and start-up administrative service expenses ($92,451) were borne initially by the Adviser. The Fund has agreed to pay the Adviser, at an annual rate of .005 of 1% of average daily net assets and .01 of 1% of average daily net assets for organization expenses and start-up administrative service expenses, respectively, until expenses borne by the Adviser are reimbursed. This commitment will expire five years from the date the Corporation's portfolio became effective. For the period ended October 31, 1993, the Fund paid the Adviser $736 for organization expenses and $1,471 for start-up administrative services pursuant to this agreement.

Administrative personnel and services were provided at approximate cost by Federated Administrative Services, Inc. Certain of the Officers and Directors of the Fund are Officers and Directors of the above corporations.

The Fund has adopted a Distribution Plan pursuant to Rule 12b-1 under the Investment Company Act of 1940. The Fund will reimburse Federated Securities Corp., the principal distributor, from the assets of the Class A and Class C Shares of the Fund, for fees it paid which relate to the distribution and administration of the Fund's Class A and Class C Shares. The Plan provides that the Fund may incur distribution expenses of up to 0.25 of 1% for Class A Shares, and 0.75 of 1% for Class C Shares of the average daily net assets, annually, to pay commissions, maintenance fees, and to compensate FSC. For the period ended October 31, 1993, FSC earned $25,677 and $532 for Class A and Class C Shares, respectively.

(6) INVESTMENT TRANSACTIONS

Purchases, and sales of investments, excluding short-term securities for the fiscal year ended October 31, 1993, were as follows:

<TABLE>

<S>	<C>
PURCHASES	$ 18,804,799
SALES AND MATURITIES	$ 20,808,325

</TABLE>

REPORT OF ERNST & YOUNG, INDEPENDENT AUDITORS

The Directors and Shareholders of
INVESTMENT SERIES FUNDS, INC.

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of Capital Growth Fund (one of the portfolios comprising the Investment Series Funds, Inc.) as of October 31, 1993, and the related statement of operations for the year then ended, the statement of changes in net assets for the year ended October 31, 1993 and for the ten months ended October 31, 1992 and the financial highlights (see pages 2, 27 and 28 of this prospectus) for the periods presented. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to gain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 1993, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Capital Growth Fund of Investment Series Funds, Inc. at October 31, 1993, the results of its operations for the year then ended, the changes in its net assets for the year ended October 31, 1993 and for the ten months ended October 31, 1992, and the financial highlights for the periods presented, in conformity with generally accepted accounting principles.

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ERNST & YOUNG

Pittsburgh, Pennsylvania
December 10, 1993

ADDRESSES

Investment Series Funds, Inc.	Capital Growth Fund Class A Shares	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Distributor	Federated Securities Corp.	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Investment Adviser	Federated Advisers	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Custodian	State Street Bank and Trust Company	P.O. Box 8604 Boston, Massachusetts 02266-8604
Transfer Agent and Dividend Disbursing Agent	Federated Services Company	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Legal Counsel	Houston, Houston & Donnelly	2510 Centre City Tower Pittsburgh, Pennsylvania 15222
Legal Counsel	Dickstein, Shapiro & Morin	2101 L Street, N.W. Washington, D.C. 20037
Independent Auditors	Ernst & Young	One Oxford Centre Pittsburgh, Pennsylvania 15219

CAPITAL GROWTH FUND
CLASS A SHARES
PROSPECTUS

A Diversified Portfolio of
Investment Series Funds, Inc., an
Open-End,
Management Investment Company

December 31, 1993

FEDERATED SECURITIES CORP.
[LOGO]
DISTRIBUTOR
A Subsidiary of Federated Investors
Federated Investors Tower
Pittsburgh, PA 15222-3779

1102503A-A (12/93)

CAPITAL GROWTH FUND
(A PORTFOLIO OF INVESTMENT SERIES FUNDS, INC.)
CLASS C SHARES

PROSPECTUS

The Class C Shares of Capital Growth Fund (the "Fund") represent interests in a diversified portfolio of securities which is an investment portfolio of Investment Series Funds, Inc. (the "Corporation"), an open-end, management investment company (a mutual fund).

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The investment objective of the Fund is appreciation of capital.

THE SHARES OFFERED BY THIS PROSPECTUS ARE NOT DEPOSITS OR OBLIGATIONS OF ANY BANK, ARE NOT INSURED OR GUARANTEED BY ANY BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE BOARD, OR ANY OTHER GOVERNMENT AGENCY. INVESTMENT IN THESE SHARES INVOLVES INVESTMENT RISKS INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

This prospectus contains the information you should read and know before you invest in Class C Shares of the Fund. Keep this prospectus for future reference.

The Fund has also filed a Combined Statement of Additional Information for Class C Shares, Class A Shares (formerly, Liberty Shares), and Investment Shares dated December 31, 1993, with the Securities and Exchange Commission. The information contained in the Combined Statement of Additional Information is incorporated by reference into this prospectus. You may request a copy of the Combined Statement of Additional Information free of charge by calling 1-800-235-4669. To obtain other information, or make inquiries about the Fund, contact your financial institution.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Prospectus dated December 31, 1993

TABLE OF CONTENTS

SUMMARY OF FUND EXPENSES 1

FINANCIAL HIGHLIGHTS--CLASS C SHARES 2

GENERAL INFORMATION 3

LIBERTY FAMILY OF FUNDS 3

Liberty Family Retirement Program 4

INVESTMENT INFORMATION 4

Investment Objective 4
Investment Policies 4
Acceptable Investments 5
Corporate Debt Obligations 5
Repurchase Agreements 5
Restricted and Illiquid Securities 5
When-Issued and Delayed Delivery Transactions 6
Foreign Securities 6

Investing in Securities of Other Investment Companies 6

Put and Call Options 7
Risks 7
Lending of Portfolio Securities 7
Portfolio Turnover 7
Investment Limitations 7

INVESTMENT SERIES FUNDS, INC. INFORMATION 8

Management of the Corporation 8
Board of Directors 8

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Officers and Directors 8
Investment Adviser 11
Advisory Fees 12
Adviser's Background 12
Distribution of Class C Shares 12
Distribution Plan 12
Other Payments to Financial Institutions 13
Administration of the Fund 13
Administrative Services 13
Shareholder Services Plan 13
Custodian 14
Transfer Agent and Dividend Disbursing Agent 14
Legal Counsel 14
Independent Auditors 14
Expenses of the Fund and Class C Shares 14
Brokerage Transactions 14

NET ASSET VALUE 15

INVESTING IN CLASS C SHARES 15

Share Purchases 15
Through a Financial Institution 15
Directly From the Distributor 15
By Wire 16
Minimum Investment Required 16
What Shares Cost 16
Systematic Investment Program 16
Certificates and Confirmations 16
Dividends and Distributions 16
Retirement Plans 17

EXCHANGE PRIVILEGE 17

Requirements for Exchange 17
Tax Consequences 17
Making an Exchange 17
Telephone Instructions 18

REDEEMING CLASS C SHARES 18

Through a Financial Institution 18
Directly from the Fund 18
By Telephone 18
By Mail 19
Signatures 19
Receiving Payment 19

Contingent Deferred Sales Charge 19

Redemption Before Purchase Instruments Clear 20
Systematic Withdrawal Program 20
Accounts with Low Balances 20

SHAREHOLDER INFORMATION 21

Voting Rights 21

TAX INFORMATION 21

Federal Income Tax 21
Pennsylvania Corporate and Personal Property Taxes 21

PERFORMANCE INFORMATION 22

OTHER CLASSES OF SHARES 22

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FINANCIAL HIGHLIGHTS--INVESTMENT SHARES 23

FINANCIAL HIGHLIGHTS--CLASS A SHARES 24

FINANCIAL STATEMENTS 25

REPORT OF ERNST & YOUNG,
INDEPENDENT AUDITORS 36

ADDRESSES Inside Back Cover

SUMMARY OF FUND EXPENSES--CLASS C SHARES

<TABLE>
<S> <C> <C> <C>

SHAREHOLDER TRANSACTION EXPENSES			
Maximum Sales Load Imposed on Purchases (as a percentage of offering price)			None
Maximum Sales Load Imposed on Reinvested Dividends (as a percentage of offering price)			None
Contingent Deferred Sales Load (as a percentage of original purchase price or redemption proceeds as applicable) (1)			1.00%
Redemption Fee (as a percentage of amount redeemed, if applicable)			None
Exchange Fee			None
ANNUAL CLASS C SHARES OPERATING EXPENSES (As a percentage of average net assets)			
Management Fee (after waiver) (2)			0.00%
12b-1 Fee			0.75%
Total Other Expenses (after expense reimbursement)			1.25%
Shareholder Services Fee		0.25%	
Total Class C Shares Operating Expenses (3)			2.00%

</TABLE>

- ---

(1) The Contingent Deferred Sales Charge assessed is 1.00% of the lesser of the original purchase price or the net asset value of Shares redeemed within one year of their purchase date. For a more complete description, see "Redeeming Class C Shares."

(2) The management fee has been reduced to reflect the voluntary waiver of the management fee. The adviser can terminate this voluntary waiver at any time at its sole discretion. The maximum management fee is 0.55% of average daily net assets plus 4.5% of gross income, excluding capital gains or losses.

(3) The Total Class C Shares Operating Expenses would have been 4.37% absent the voluntary waiver of the management fee and the voluntary reimbursement of certain other operating expenses.

THE PURPOSE OF THIS TABLE IS TO ASSIST AN INVESTOR IN UNDERSTANDING THE VARIOUS COSTS AND EXPENSES THAT A SHAREHOLDER OF CLASS C SHARES OF THE FUND WILL BEAR, EITHER DIRECTLY OR INDIRECTLY. FOR MORE COMPLETE DESCRIPTIONS OF THE VARIOUS COSTS AND EXPENSES, SEE "INVESTING IN CLASS C SHARES" AND "INVESTMENT SERIES FUNDS, INC. INFORMATION." Wire-transferred redemptions of less than $5,000 may be subject to additional fees.

Long-term shareholders may pay more than the economic equivalent of the maximum front-end sales charge permitted under the rules of the National Association of Securities Dealers, Inc.

<TABLE>
<CAPTION>

EXAMPLE	1 year	3 years
You would pay the following expenses on a $1,000 investment assuming (1) 5% annual return and (2) redemption at the end of each time period	$31	$63
You would pay the following expenses on the same investment, assuming no redemption	$20	$63

</TABLE>

THE ABOVE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES. ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN.

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The information set forth in the foregoing table and example relates only to Class C Shares of the Fund. The Fund also offers two additional classes of shares called Investment Shares and Class A Shares. Investment Shares, Class A Shares, and Class C Shares are all subject to certain of the same expenses. However, Investment Shares are subject to a maximum sales load of 5.75% but are not subject to a redemption fee, a contingent deferred sales charge, a shareholder servicing fee, or a 12b-1 fee. Class A Shares are subject to a maximum sales load of 4.50%, a 12b-1 fee of 0.25% and may be subject to a redemption fee but are not subject to a shareholder servicing fee. See "Other Classes of Shares."

CAPITAL GROWTH FUND
FINANCIAL HIGHLIGHTS--CLASS C SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT THE PERIOD)

Reference is made to Report of Ernst & Young, Independent Auditors, on page 36.

<TABLE>
<CAPTION>

<S>	YEAR ENDED OCTOBER 31, 1993** <C>
NET ASSET VALUE, BEGINNING OF PERIOD	$ 12.39
INCOME FROM INVESTMENT OPERATIONS	
Net investment income	(0.01)
Net realized and unrealized gain on investments	0.98
Total from investment operations	0.97
NET ASSET VALUE, END OF PERIOD	$ 13.36
TOTAL RETURN*	7.83%(b)
RATIOS TO AVERAGE NET ASSETS	
Expenses	2.00%(a)
Net investment income	(0.18)%(a)
Expense waiver/reimbursement (c)	2.37%(a)
SUPPLEMENTAL DATA	
Net assets, end of period (000 omitted)	$314
Portfolio turnover rate	74 %

</TABLE>

* Based on net asset value which does not reflect the sales load or contingent deferred sales charge, if applicable.

** Reflects operations from April 13, 1993 (date of initial public investment) to October 31, 1993.

(a) Computed on an annualized basis.

(b) Cumulative total return.

(c) This expense decrease is reflected in both the expense and net investment income ratios shown above (Note 5).

Further information about the Fund's performance is contained in the Fund's annual report for the fiscal year ended October 31, 1993, which can be obtained free of charge.

(See Notes which are an integral part of the financial statements)

GENERAL INFORMATION

The Corporation was incorporated under the laws of the State of Maryland on May 20, 1992. Prior to December 18, 1992, the Fund was operated as a portfolio of Investment Series Trust, a Massachusetts business trust established pursuant to

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a Declaration of Trust dated March 17, 1987. On December 18, 1992, the shareholders of the Fund voted to reorganize the Fund as a portfolio of the Corporation. The Articles of Incorporation permit the Corporation to offer separate series of shares of capital stock representing interests in separate portfolios of securities. The shares in any one portfolio may be offered in separate classes. With respect to this Fund, as of the date of this prospectus, the Board of Directors ("Directors") has established three classes of shares, known as Class C Shares, Class A Shares (formerly, Liberty Shares), and Investment Shares. This prospectus relates only to the Class C Shares ("Shares") of the Fund.

Shares of the Fund are designed for individuals as a convenient means of accumulating an interest in a professionally managed, diversified portfolio of equity securities with prospects for above average growth in earnings and dividends or of companies where significant fundamental changes are taking place. A minimum initial investment of $1,500 is required, unless the investment is in a retirement account, in which case the minimum investment is $50. Shares are sold at net asset value. However, a contingent deferred sales charge of 1.00% will be imposed on assets redeemed within the first twelve months following purchase.

The Fund's current net asset value can be found in the mutual funds section of local newspapers under "Liberty Family Funds."

LIBERTY FAMILY OF FUNDS
- ---

Class C Shares of the Fund are a member of a family of mutual funds, collectively known as the Liberty Family of Funds. The other funds in the Liberty Family of Funds are:

American Leaders Fund, Inc., providing growth of capital and income through high-quality stocks;

Fund for U.S. Government Securities, Inc., providing current income through long-term U.S. government securities;

International Equity Fund, providing long-term capital growth and income through international securities;

International Income Fund, providing a high level of current income consistent with prudent investment risk through high-quality debt securities denominated primarily in foreign currencies;

Liberty Equity Income Fund, Inc., providing above-average income and capital appreciation through income-producing equity securities;

Liberty High Income Bond Fund, Inc., providing high current income through high-yielding, lower-rated, corporate bonds;

Liberty Municipal Securities Fund, Inc., providing a high level of current income exempt from federal regular income tax through municipal bonds;

Liberty U.S. Government Money Market Trust, providing current income consistent with stability of principal through high-quality U.S. government securities;

Liberty Utility Fund, Inc., providing current income and long-term growth of income, primarily through electric, gas, and communication utilities;

Stock and Bond Fund, Inc. (Class C Shares), providing relative safety of capital with the possibility of long-term growth of capital and income through equity securities, convertible securities, debt securities, and short-term obligations; and

Tax-Free Instruments Trust, providing current income consistent with stability of principal and exempt from federal income tax, through high-quality, short-term municipal securities.

Prospectuses for these funds are available by writing to Federated Securities Corp.

Each of the funds may also invest in certain other types of securities as described in each fund's prospectus.

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The Liberty Family of Funds provides flexibility and diversification for an investor's long-term investment planning. It enables an investor to meet the challenges of changing market conditions by offering convenient exchange privileges which give access to various investment vehicles and by providing the investment services of proven, professional investment advisers.

LIBERTY FAMILY RETIREMENT PROGRAM

The Fund is also a member of the Liberty Family Retirement Program, an integrated program of investment options, plan recordkeeping, and consultation services for 401(k) and other participant-directed benefit and savings plans. Under the Program, employers or plan trustees may select a group of investment options to be offered in a plan which also uses the Program for recordkeeping and administrative services. Additional fees are charged to participating plans for these services. As part of the Program, exchanges may readily be made between investment options selected by the employer or plan trustee.

The other funds participating in the Liberty Family Retirement Program are: American Leaders Fund, Inc.; Fund for U.S. Government Securities, Inc.; International Equity Fund; International Income Fund; Liberty Equity Income Fund, Inc.; Liberty High Income Bond Fund, Inc.; Liberty Utility Fund, Inc.; and Prime Cash Series; and Stock and Bond Fund, Inc. Plans with over $1 million invested in funds available in the Liberty Family Retirement Program may purchase Class A Shares without a sales load.

INVESTMENT INFORMATION
- ---

INVESTMENT OBJECTIVE

The investment objective of the Fund is appreciation of capital. The investment objective cannot be changed without approval of shareholders. While there is no assurance that the Fund will achieve its investment objective, it endeavors to do so by following the investment policies described in this prospectus.

INVESTMENT POLICIES

The Fund pursues its investment objective by investing primarily in equity securities of companies with prospects for above-average growth in earnings and dividends or of companies where significant fundamental changes are taking place. The Fund generally invests in companies with market capitalization of $100,000,000 or more. The investment policies may be changed by the Directors without shareholder approval. Shareholders will be notified before any material change in these policies becomes effective.

ACCEPTABLE INVESTMENTS. Equity securities are selected by the Fund's investment adviser on the basis of traditional research techniques, including assessment of earnings and dividend growth prospects and of the risk and volatility of each company's business. The fundamental changes which the investment adviser will seek to identify in companies include, for example, restructuring of basic businesses or reallocations of assets which present opportunities for significant share price appreciation. At times, the Fund will invest in securities of companies which are deemed by the investment adviser to be candidates for acquisition by other entities as indicated by changes in ownership, changes in standard price to value ratios, and an examination of other standard analytical indices. Under normal circumstances, at least 65% of the value of the Fund's total assets will be invested in equity securities. However, the Fund is not required to purchase or sell these securities if the 65% investment level changes due to increases or decreases in the market value of portfolio securities.

The Fund may invest in preferred stocks, corporate bonds, debentures, notes, warrants, and put options on stocks. For temporary defensive purposes, the Fund may also invest in short-term money market instruments, U.S. government securities, and hold cash in such proportions as the Fund's investment adviser may determine.

CORPORATE DEBT OBLIGATIONS. The Fund may invest up to 35% of the value of its total assets in corporate debt obligations that are rated B or better by a nationally recognized statistical rating organization ("NRSRO"). Corporate debt obligations that are not determined to be investment grade (rated BBB or higher by Standard & Poor's Corporation or Fitch Investors Service, Inc., or Baa or higher by Moody's Investors' Service, Inc.) are high-yield, high-risk bonds, typically subject to greater market fluctuations and greater risk of loss of income and principal due to an issuer's default. To a greater extent than investment grade bonds, lower rated bonds tend to reflect short-term corporate, economic, and market developments, as well as investor perceptions of the issuer's credit quality. In addition, lower rated bonds may be more difficult to

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dispose of or to value than higher-rated, lower-yielding bonds. Bonds rated BB or B, or Ba or B, respectively, by a NRSRO have speculative characteristics. Changes in economic conditions or other circumstances are more likely to lead to weakened capacity to make principal and interest payments than higher rated bonds. Downgraded securities will be evaluated on a case by case basis by the adviser. The adviser will determine whether or not the security continues to be an acceptable investment. If not, the security will be sold. A full description of the rating categories is contained in the Appendix to the Statement of Additional Information.

REPURCHASE AGREEMENTS. The Fund may purchase acceptable investments pursuant to repurchase agreements. Repurchase agreements are arrangements in which banks, broker/dealers, and other recognized financial institutions sell U.S. government or other securities to the Fund and agree at the time of sale to repurchase them at a mutually agreed upon time and price. To the extent that the original seller does not repurchase the securities from the Fund, they could receive less than the repurchase price on any sale of such securities.

RESTRICTED AND ILLIQUID SECURITIES. The Fund intends to invest in restricted securities up to specific limitations. These limitations are not applicable to commercial paper issued under Section 4(2) of the Securities Act of 1933. Restricted securities are any securities in which the Fund may otherwise invest pursuant to its investment objective and policies but which are subject to restriction on resale under federal securities law. The Fund will limit investments in illiquid securities, including certain restricted securities not determined by the Directors to be liquid, and repurchase agreements providing for settlement in more than seven days after notice, to 15% of net assets.

The Fund may invest in commercial paper issued in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933. Section 4(2) commercial paper is restricted as to disposition under federal securities law and is generally sold to institutional investors such as the Fund who agrees that the Fund is purchasing the paper for investment purposes and not with a view to public distribution. Any resale by the purchaser must be in an exempt transaction. Section 4(2) commercial paper is normally resold to other institutional investors like the Fund through or with the assistance of the issuer or the investment dealers who make a market in Section 4(2) commercial paper, thus providing liquidity. The Fund believes that Section 4(2) commercial paper and possibly certain other restricted securities which meet the criteria for liquidity established by the Directors of the Corporation are quite liquid. The Fund intends, therefore, to treat the restricted securities which meet the criteria for liquidity established by the Directors, including Section 4(2) commercial paper, as determined by the investment adviser of the Fund, as liquid and not subject to the investment limitation applicable to illiquid securities. In addition, because Section 4(2) commercial paper is liquid, the Fund intends to not subject such paper to the limitation applicable to restricted securities.

WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS. The Fund may purchase acceptable investments on a when-issued or delayed delivery basis. In when-issued and delayed delivery transactions, the Fund relies on the seller to complete the transaction. The seller's failure to complete the transaction may cause the Fund to miss a price or yield considered to be advantageous.

FOREIGN SECURITIES. The Fund may invest up to 10% of its net assets in foreign securities. Investments in foreign securities, particularly those of non-governmental issuers, involve considerations which are not ordinarily associated with investments in domestic issuers. These considerations include the possibility of expropriation, the unavailability of financial information, or the difficulty of interpreting financial information prepared under foreign accounting standards, less liquidity and more volatility in foreign securities markets, the impact of political, social, or diplomatic developments, and the difficulty of assessing economic trends in foreign countries. It may also be more difficult to enforce contractual obligations abroad than would be the case in the United States because of differences in the legal systems. Transaction costs in foreign securities may be higher. The investment adviser will consider these and other factors before investing in foreign securities and will not make such investments unless, in its opinion, such investments will meet the Fund's standards and objective. The Fund will only purchase securities issued in U.S. dollar denominations.

INVESTING IN SECURITIES OF OTHER INVESTMENT COMPANIES. _The Fund may invest in the securities of other investment companies, but it will not own more than 3% of the total outstanding voting stock of any investment company, invest more than 5% of its total assets in any one investment company, or invest more than 10% of its total assets in investment companies in general. The Fund will only invest in other investment companies that are money market funds having an investment objective and policies similar to its own and primarily for the purpose of investing short-term cash which has not yet been invested in other portfolio instruments. The investment adviser to the Fund will waive its

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investment advisory fee on assets invested in securities of open-end investment companies.

PUT AND CALL OPTIONS. The Fund may purchase put options on stocks. These options will be used only as a hedge to attempt to protect securities which the Fund holds against decreases in value. The Fund may purchase these put options as long as they are listed on a recognized options exchange and the underlying stocks are held in its portfolio.

The Fund may also write call options on securities either held in its portfolio or which it has the right to obtain without payment of further consideration or for which it has segregated cash in the amount of any additional consideration. The call options which the Fund writes and sells must be listed on a recognized options exchange. Writing of call options by the Fund is intended to generate income for the Fund and thereby protect against price movements in particular securities in the Fund's portfolio.

RISKS. The effective use of options as hedging techniques depends on the correlation between their prices and the behavior of the Fund's portfolio securities as well as the investment adviser's ability to accurately predict the direction of stock prices, interest rates and other relevant economic factors. Prior to exercise or expiration, an option position can only be terminated by entering into a closing purchase or sale transaction. This requires a secondary market on an exchange which may or may not exist for any particular call or put option at any specific time. The absence of a liquid secondary market also may limit the Fund's ability to dispose of the securities underlying an option. The inability to close options also could have an adverse impact on the Fund's ability to effectively hedge its portfolio.

LENDING OF PORTFOLIO SECURITIES. In order to generate additional income, the Fund may lend portfolio securities on a short-term or a long-term basis up to one-third of the value of its total assets to broker/dealers, banks, or other institutional borrowers of securities. The Fund will only enter into loan arrangements with broker/dealers, banks, or other institutions which the investment adviser has determined are creditworthy under guidelines established by the Directors and will receive collateral equal to at least 100% of the value of the securities loaned.

PORTFOLIO TURNOVER

Although the Fund does not intend to invest for the purpose of seeking short-term profits, securities in its portfolio will be sold whenever the Fund's investment adviser believes it is appropriate to do so in light of the Fund's investment objective, without regard to the length of time a particular security may have been held.

INVESTMENT LIMITATIONS

The Fund will not:

borrow money directly or through reverse repurchase agreements (arrangements in which the Fund sells a portfolio instrument for a percentage of its cash value with an agreement to buy it back on a set date) or pledge securities except, under certain circumstances, the Fund may borrow up to one-third of the value of its total assets and pledge up to 10% of the value of those assets to secure such borrowings;

sell securities short except, under strict limitations, the Fund may maintain open short positions so long as not more than 10% of the value of its net assets is held as collateral for those positions; or

lend any of its assets except portfolio securities up to one-third of the value of its total assets.

The above investment limitations cannot be changed without shareholder approval. The following limitations, however, may be changed by the Directors without shareholder approval. Shareholders will be notified before any material changes in these limitations become effective.

The Fund will not:

invest more than 5% of its total assets in securities of issuers that have records of less than three years of continuous operations including the operation of any predecessors;

commit more than 5% of its total assets to premiums on open put option positions;

invest more than 5% of its total assets in securities of one issuer

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(except cash and cash items, repurchase agreements collateralized by U.S. government securities, and U.S. government obligations) or purchase more than 10% of any class of voting securities of any one issuer; or

invest more than 5% of its total assets in warrants.

INVESTMENT SERIES FUNDS, INC. INFORMATION

MANAGEMENT OF THE CORPORATION

BOARD OF DIRECTORS. The Corporation is managed by a Board of Directors. The Directors are responsible for managing the business affairs of the Corporation and for exercising all of the Corporation's powers except those reserved for the shareholders. An Executive Committee of the Board of Directors handles the Directors' responsibilities between meetings of the Directors.

OFFICERS AND DIRECTORS. Officers and Directors are listed with their addresses, principal occupations, and present positions, including any affiliation with Federated Advisers, Federated Investors, Federated Securities Corp., Federated Administrative Services, Inc., and the Funds described in the Statement of Additional Information.

<TABLE>
<CAPTION>

NAME AND ADDRESS	POSITIONS WITH THE CORPORATION	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS
<S>	<C>	<C>
John F. Donahue* Federated Investors Tower Pittsburgh, PA	Chairman and Director	Chairman and Trustee, Federated Investors; Chairman and Trustee, Federated Advisers, Federated Management, and Federated Research; Director, AEtna Life and Casualty Company; Chief Executive Officer and Director, Trustee, or Managing General Partner of the Funds; formerly, Director, The Standard Fire Insurance Company. Mr. Donahue is the father of J. Christopher Donahue, President and Director of the Corporation.
John T. Conroy, Jr. Wood/IPC Commercial Department John R. Wood and Associates, Inc., Realtors 3255 Tamiami Trail North Naples, FL	Director	President, Investment Properties Corporation; Senior Vice-President, John R. Wood and Associates, Inc., Realtors; President, Northgate Village Development Corporation; General Partner or Trustee in private real estate ventures in Southwest Florida; Director, Trustee, or Managing General Partner of the Funds; formerly, President, Naples Property Management, Inc..
William J. Copeland One PNC Plaza 23rd Floor Pittsburgh, PA	Director	Director and Member of the Executive Committee, Michael Baker, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Vice Chairman and Director, PNC Bank, N.A. and PNC Bank Corp. and Director, Ryan Homes, Inc.
J. Christopher Donahue* Federated Investors Tower Pittsburgh, PA	President and Director	President and Trustee, Federated Investors; Trustee, Federated Advisers, Federated Management, and Federated Research; President and Director, Federated Administrative Services, Inc.; President or Vice President of the Funds; Director, Trustee, or Managing General Partner of some of the Funds. Mr. Donahue is the son of John F. Donahue, Chairman and Director of the Corporation.
James E. Dowd 571 Hayward Mill Road Concord, MA	Director	Attorney-at-law; Director, The Emerging Germany Fund, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Director, Blue Cross of Massachusetts, Inc.
Lawrence D. Ellis, M.D. 3471 Fifth Avenue Suite 1111 Pittsburgh, PA	Director	Hematologist, Oncologist, and Internist, Presbyterian and Montefiore Hospitals; Clinical Professor of Medicine and Trustee, University of Pittsburgh; Director, Trustee, or Managing General Partner of the Funds.
Edward L. Flaherty, Jr.\ 5916 Penn Mall Pittsburgh, PA	Director	Attorney-at-law; Partner, Meyer and Flaherty; Director, Eat'N Park Restaurants, Inc., and Statewide Settlement Agency, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Counsel, Horizon Financial, F.A., Western

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		Region.
Peter E. Madden 225 Franklin Street Boston, MA	Director	Consultant; State Representative, Commonwealth of Massachusetts; Director, Trustee, or Managing General Partner of the Funds; formerly, President, State Street Bank and Trust Company, State Street Boston Corporation, and Trustee, Lahey Clinic Foundation, Inc.
Gregor F. Meyer 5916 Penn Mall Pittsburgh, PA	Director	Attorney-at-law; Partner, Meyer and Flaherty; Chairman, Meritcare, Inc.; Director, Eat'N Park Restaurants, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Vice Chairman, Horizon Financial, F.A.
Wesley W. Posvar 1202 Cathedral of Learning University of Pittsburgh Pittsburgh, PA	Director	Professor, Foreign Policy and Management Consultant; Trustee, Carnegie Endowment for International Peace; RAND Corporation; Online Computer Library Center, Inc.; and U.S. Space Foundation; Chairman, Czecho Slovak Management Center; Director, Trustee, or Managing General Partner of the Funds; President Emeritus, University of Pittsburgh; formerly, Chairman, National Advisory Council for Environmental Policy and Technology.
Marjorie P. Smuts 4905 Bayard Street Pittsburgh, PA	Director	Public relations/marketing consultant; Director, Trustee, or Managing General Partner of the Funds.
Richard B. Fisher Federated Investors Tower Pittsburgh, PA	Vice President	Executive Vice President and Trustee, Federated Investors; Chairman and Director, Federated Securities Corp.; President or Vice President of the Funds; Director or Trustee of some of the Funds.
Edward C. Gonzales Federated Investors Tower Pittsburgh, PA	Vice President and Treasurer	Vice President, Treasurer, and Trustee, Federated Investors; Vice President and Treasurer, Federated Advisers, Federated Management, and Federated Research; Executive Vice President, Treasurer, and Director, Federated Securities Corp.; Chairman, Treasurer, and Director, Federated Administrative Services, Inc.; Trustee or Director of some of the Funds; Vice President and Treasurer of the Funds.
John W. McGonigle Federated Investors Tower Pittsburgh, PA	Vice President and Secretary	Vice President, Secretary, General Counsel, and Trustee, Federated Investors; Vice President, Secretary, and Trustee, Federated Advisers, Federated Management, and Federated Research; Executive Vice President, Secretary, and Director, Federated Administrative Services, Inc.; Director and Executive Vice President, Federated Securities Corp.; Vice President and Secretary of the Funds.
John A. Staley, IV Federated Investors Tower Pittsburgh, PA	Vice President	Vice President and Trustee, Federated Investors; Executive Vice President, Federated Securities Corp.; President and Trustee, Federated Advisers, Federated Management, and Federated Research; Vice President of the Funds; Director, Trustee, or Managing General Partner of the Funds; formerly, Vice President, The Standard Fire Insurance Company and President of its Federated Research Division.

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*This Director is deemed to be an "interested person" of the Corporation as defined in the Investment Company Act of 1940.

\Members of the Corporation's Executive Committee. The Executive Committee of the Board of Directors handles the responsibilities of the Directors between meetings of the Directors.

INVESTMENT ADVISER. Pursuant to an investment advisory contract with the Corporation, investment decisions for the Fund are made by Federated Advisers, the Fund's investment adviser (the "Adviser"), subject to direction by the Directors. The Adviser continually conducts investment research and supervision for the Fund and is responsible for the purchase or sale of portfolio instruments, for which it receives an annual fee from the Fund.

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ADVISORY FEES. The Adviser receives an annual investment advisory fee equal to .55 of 1% of the Fund's average daily net assets plus 4.5% of the Fund's annual gross income, excluding any capital gains or losses. Gross income includes, in general, discount earned on U.S. Treasury bills and agency discount notes, interest earned on all interest bearing obligations and dividend income recorded on the ex-dividend date but does not include capital gains or losses or reduction of expenses. The Adviser may voluntary waive a portion of its fee or reimburse the Fund for certain operating expenses. The Adviser can terminate this voluntary waiver at any time at its sole discretion. The Adviser has also undertaken to reimburse the Fund for operating expenses in excess of limitations established by certain states.

ADVISER'S BACKGROUND. Federated Advisers, a Delaware business trust organized on April 11, 1989, is a registered investment adviser under the Investment Advisers Act of 1940. It is a subsidiary of Federated Investors. All of the Class A (voting) shares of Federated Investors are owned by a trust, the trustees of which are John F. Donahue, Chairman and Trustee of Federated Investors, Mr. Donahue's wife, and Mr. Donahue's son, J. Christopher Donahue, who is President and Trustee of Federated Investors.

Federated Advisers and other subsidiaries of Federated Investors serve as investment advisers to a number of investment companies and private accounts. Certain other subsidiaries also provide administrative services to a number of investment companies. Total assets under management or administration by these and other subsidiaries of Federated Investors are approximately $70 billion. Federated Investors, which was founded in 1956 as Federated Investors, Inc., develops and manages mutual funds primarily for the financial industry. Federated Investors' track record of competitive performance and its disciplined, risk averse investment philosophy serve approximately 3,500 client institutions nationwide. Through these same client institutions, individual shareholders also have access to this same level of investment expertise.

Gregory M. Melvin has been the Fund's portfolio manager since December, 1989. Mr. Melvin joined Federated Investors in 1980 and has been a Vice President of the Fund's investment adviser since 1984. Mr. Melvin is a Chartered Financial Analyst and received his M.B.A. in Finance from Harvard Business School.
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DISTRIBUTION OF CLASS C SHARES

Federated Securities Corp. is the principal distributor for Shares of the Fund. Federated Securities Corp. is located at Federated Investors Tower, Pittsburgh, Pennsylvania 15222-3779. It is a Pennsylvania corporation organized on November 14, 1969, and is the principal distributor for a number of investment companies. Federated Securities Corp. is a subsidiary of Federated Investors.

DISTRIBUTION PLAN. Pursuant to the provisions of a distribution plan adopted in accordance with Rule 12b-1 under the Investment Company Act of 1940, as amended (the "Plan"), Shares will pay an amount computed at an annual rate of .75% of the average daily net asset value of Shares to finance any activity which is principally intended to result in the sale of Shares.

The distributor may select financial institutions (such as a broker/dealer or bank) to provide sales support services as agents for their clients or customers who beneficially own Shares. Financial institutions will receive fees from the distributor based upon Shares owned by their clients or customers. The schedules of such fees and the basis upon which such fees will be paid will be determined from time to time by the distributor.

The Fund's Plan is a compensation type plan. As such, the Fund makes no payments to the distributor except as described above. Therefore, the Fund does not pay for unreimbursed expenses of the distributor, including amounts expended by the distributor in excess of amounts received by it from the Fund, including interest, carrying, or other financing charges in connection with excess amounts expended, or the distributor's overhead expenses. However, the distributor may be able to recover such amounts or may earn a profit from future payments made by the Fund under the Plan.

The Glass-Steagall Act prohibits a depository institution (such as a commercial bank or a savings and loan association) from being an underwriter or distributor of most securities. In the event the Glass-Steagall Act is deemed to prohibit depository institutions from acting in the capacities described above or should Congress relax current restrictions on depository institutions, the Board of Directors will consider appropriate changes in the services.

State securities laws governing the ability of depository institutions to act as underwriters or distributors of securities may differ from interpretations given

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to the Glass-Steagall Act and, therefore, banks and financial institutions may be required to register as dealers pursuant to state laws.

The distributor may, from time to time and for such periods as it deems appropriate, voluntarily reduce its compensation under the Plan.

OTHER PAYMENTS TO FINANCIAL INSTITUTIONS. In addition to periodic payments to financial institutions under the Plan, Federated Securities Corp. will pay financial institutions an amount equal to 1% of the net asset value of Shares purchased by their clients or customers at the time of purchase (except for participants in the Liberty Family Retirement Program). Furthermore, certain financial institutions may be compensated by the Adviser or its affiliates for the continuing investment of customers' assets in certain funds, including the Fund, advised by those entities. These payments will be made directly by the distributor or Adviser from their assets, and will not be made from the assets of the Fund or by the assessment of a sales charge on Shares. Financial institutions may elect to waive the initial payment described above; such waiver will result in the waiver by the Fund of the otherwise applicable redemption fee.

ADMINISTRATION OF THE FUND

ADMINISTRATIVE SERVICES. Federated Administrative Services, Inc., which is a subsidiary of Federated Investors, provides the Fund with the administrative personnel and services necessary to operate the Fund. Such services include shareholder servicing and certain legal and accounting services. Federated Administrative Services, Inc. provides these at approximate cost.

SHAREHOLDER SERVICES PLAN. The Fund has adopted a Shareholder Services Plan (the "Services Plan") with respect to the Class C Shares. Under the Services Plan, financial institutions will enter into shareholder service agreements with the Fund to provide administrative support services to their customers who from time to time may be owners of record or beneficial owners of Class C Shares. In return for providing these support services, a financial institution may receive payments from the Fund at a rate not exceeding .25% of the average daily net assets of the Class C Shares beneficially owned by the financial institution's customers for whom it is holder of record or with whom it has a servicing relationship. These administrative services may include, but are not limited to, the following functions: providing office space, equipment, telephone facilities, and various personnel, including clerical, supervisory, and computer, as necessary or beneficial to establish and maintain shareholder accounts and records; processing purchase and redemption transactions and automatic investments of client account cash balances; answering routine client inquiries regarding the Fund; assisting clients in changing dividend options, account designations, and addresses; and providing such other services as the Fund reasonably requests.

CUSTODIAN. State Street Bank and Trust Company ("State Street Bank"), P.O. Box 8604, Boston, Massachusetts 02266-8604, is custodian for the securities and cash of the Fund.

TRANSFER AGENT AND DIVIDEND DISBURSING AGENT. _Federated Services Company, Pittsburgh, Pennsylvania, is transfer agent for Shares of the Fund, and dividend disbursing agent for the Fund.

LEGAL COUNSEL. Legal counsel is provided by Houston, Houston & Donnelly, 2510 Centre City Tower, Pittsburgh, Pennsylvania 15222, and Dickstein, Shapiro & Morin, 2101 L Street, N.W., Washington, DC 20037.

INDEPENDENT AUDITORS. Independent auditing services are provided by Ernst & Young, Pittsburgh, Pennsylvania 15219.

EXPENSES OF THE FUND AND CLASS C SHARES

Holders of each class of shares pay their allocable portion of Fund and Corporation expenses.

The Corporation expenses for which holders of Shares pay their allocable portion include, but are not limited to: the cost of organizing the Corporation and continuing its existence; registering the Corporation with federal and state securities authorities; Directors' fees; auditors' fees; the cost of meetings of Directors; legal fees of the Corporation; association membership dues; and such non-recurring and extraordinary items as may arise from time to time.

The Fund expenses for which holders of Shares pay their allocable portion include, but are not limited to: registering the Fund and Shares of the Fund; investment advisory services; taxes and commissions;

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custodian fees; insurance premiums; auditors' fees; and such non-recurring and extraordinary items as may arise from time to time.

At present, the only expenses which are allocated specifically to Shares as a class are expenses under the Fund's Shareholder Services Plan and Distribution Plan. However, the Directors reserve the right to allocate certain other expenses to holders of Shares as it deems appropriate ("Class Expenses"). In any case, Class Expenses would be limited to: distribution fees; transfer agent fees as identified by the transfer agent as attributable to holders of Shares; fees under the Fund's Shareholder Services Plan, printing and postage expenses related to preparing and distributing materials such as shareholder reports, prospectuses and proxies to current shareholders; registration fees paid to the Securities and Exchange Commission and to state securities commissions; expenses related to administrative personnel and services as required to support holders of Shares; legal fees relating solely to Shares; and Directors' fees incurred as a result of issues relating solely to Shares.

BROKERAGE TRANSACTIONS

When selecting brokers and dealers to handle the purchase and sale of portfolio instruments, the Adviser looks for prompt execution of the order at a favorable price. In working with dealers, the Adviser will generally utilize those who are recognized dealers in specific portfolio instruments, except when a better price and execution of the order can be obtained elsewhere. In selecting among firms believed to meet these criteria, the Adviser may give consideration to those firms which have sold or are selling Shares of the Fund and other funds distributed by Federated Securities Corp. The Adviser makes decisions on portfolio transactions and selects brokers and dealers subject to review by the Directors.

NET ASSET VALUE

The Fund's net asset value per Share fluctuates. The net asset value for Shares is determined by adding the interest of the Class C Shares in the market value of all securities and other assets of the Fund, subtracting the interest of the Class C Shares in the liabilities of the Fund and those attributable to the Class C Shares, and dividing the remainder by the total number of Class C Shares outstanding. The net asset values for Investment Shares and for Class A Shares may differ from that of Class C Shares due to the variance in daily net income realized by each respective class. Such variance will reflect only accrued net income to which the shareholders of a particular class are entitled.

INVESTING IN CLASS C SHARES

SHARE PURCHASES

Shares are sold on days on which the New York Stock Exchange and the Federal Reserve Wire System are open. Shares may be purchased through a financial institution which has a sales agreement with the distributor or directly from the distributor, Federated Securities Corp., once an account has been established. In connection with the sale of Shares, Federated Securities Corp. may from time to time offer certain items of nominal value to any shareholder or investor. The Fund reserves the right to reject any purchase request.

Participants in plans under the Liberty Family Retirement Program shall purchase Shares in accordance with the requirements of their respective plans.

THROUGH A FINANCIAL INSTITUTION. An investor may call his financial institution (such as a bank or an investment dealer) to place an order to purchase Shares. Orders placed through a financial institution are considered received when the Fund is notified of the purchase order. Purchase orders through a registered broker/dealer must be received by the broker before 4:00 P.M. (Eastern time) and must be transmitted by the broker to the Fund before 5:00 P.M. (Eastern time) in order for Shares to be purchased at that day's price. Purchase orders through other financial institutions (such as a registered investment adviser) must be received by the financial institution and transmitted to the Fund before 4:00 P.M. (Eastern time) in order for Shares to be purchased at that day's price. It is the financial institution's responsibility to transmit orders promptly.

DIRECTLY FROM THE DISTRIBUTOR. An investor may place an order to purchase Shares directly from the distributor once an account has been established. To do so:

- complete and sign the new account form available from the Fund;
- enclose a check made payable to Capital Growth Fund--Class C Shares; and

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mail both to Investment Series Funds, Inc., P.O. Box 8604, Boston, Massachusetts 02266-8604.

Orders by mail are considered received after payment by check is converted by State Street Bank into federal funds. This is generally the next business day after State Street Bank receives the check.

BY WIRE. To purchase Shares directly from the distributor by wire once an account has been established, call the Fund. All information needed will be taken over the telephone, and the order is considered received when State Street Bank receives payment by wire. Federal funds should be wired as follows: State Street Bank and Trust Company, Boston, Massachusetts 02105; Attention: Mutual Fund Servicing Division; For Credit to: Capital Growth Fund--Class C Shares; Fund Number (this number can be found on the account statement or by contacting the Fund); Group Number or Order Number; Nominee or Institution Name; ABA Number 011000028. Shares cannot be purchased by wire on Columbus Day, Veterans' Day, or Martin Luther King Day.

MINIMUM INVESTMENT REQUIRED

The minimum initial investment in Shares is $1,500, unless the investment is in a retirement account, in which case the minimum initial investment is $50. Subsequent investments must be in amounts of at least $100, except for retirement accounts, which must be in amounts of at least $50. (Other minimum investment requirements may apply to investments through the Liberty Family Retirement Program.)

WHAT SHARES COST

Shares are sold at their net asset value next determined after an order is received. The net asset value is determined at 4:00 P.M. (Eastern time) or at the close of the New York Stock Exchange, Monday through Friday, except on: (i) days on which there are not sufficient changes in the value of the Fund's portfolio securities that its net asset value might be materially affected; (ii) days during which no Shares are tendered for redemption and no orders to purchase Shares are received; or (iii) the following holidays: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

SYSTEMATIC INVESTMENT PROGRAM

Once an account has been opened, shareholders may add to their investment on a regular basis in a minimum amount of $100. Under this program, funds may be automatically withdrawn periodically from the shareholder's checking account and invested in Shares at the net asset value next determined after an order is received by the transfer agent. A shareholder may apply for participation in this program through his financial institution or directly through the Fund.

CERTIFICATES AND CONFIRMATIONS

As transfer agent for the Fund, Federated Services Company maintains a Share account for each shareholder of record. Share certificates are not issued unless requested in writing to Federated Services Company.

Detailed confirmations of each purchase or redemption are sent to each shareholder. Quarterly confirmations are sent to report dividends paid during that quarter.

DIVIDENDS AND DISTRIBUTIONS

Dividends are declared and paid quarterly to all shareholders invested in the Fund on the record date. Distributions of any net realized long-term capital gains will be made at least once every twelve months. Dividends and distributions are automatically reinvested in additional Shares on payment dates at the ex-dividend date net asset value without a sales charge, unless shareholders request cash payments on the new account form or by writing to the dividend disbursing agent. All shareholders on the record date are entitled to the dividend. If Shares are redeemed or exchanged prior to the record date or purchased after the record date, those Shares are not entitled to that quarter's dividend.

RETIREMENT PLANS

Shares of the Fund can be purchased as an investment for retirement plans or for

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IRA accounts. For further details, including prototype retirement plans, contact the Fund and consult a tax adviser.

EXCHANGE PRIVILEGE

In order to provide greater flexibility to Fund shareholders whose investment objectives have changed, Class C shareholders may exchange all or some of their Shares for Class C Shares of other funds in the Liberty Family of Funds at net asset value without a redemption fee. Participants in a plan under the Liberty Family Retirement Program may exchange some or all of their Shares for Class C Shares of other funds offered under their plan at net asset value without a contigent deferred sales charge. Any contingent deferred sales charge imposed at the time exchanged-for shares are redeemed is calculated as if the shareholder had held the shares from the date on which he or she became a shareholder of the exchanged-from Shares. For more information, see "Contingent Deferred Sales Charge."

REQUIREMENTS FOR EXCHANGE

Shareholders using this privilege must exchange Shares having a net asset value of at least $1,500. Before the exchange, the shareholder must receive a prospectus of the fund for which the exchange is being made.

This privilege is available to shareholders resident in any state in which the fund shares being acquired may be sold. Upon receipt of proper instructions and required supporting documents, Shares submitted for exchange are redeemed and the proceeds invested in shares of the other fund. The exchange privilege may be modified or terminated at any time. Shareholders will be notified of the modification or termination of the exchange privilege.

Further information on the exchange privilege and prospectuses for the Liberty Family of Funds or certain of the Funds (as defined in the Statement of Additional Information) are available by contacting the Fund.

TAX CONSEQUENCES

An exercise of the exchange privilege is treated as a sale for federal income tax purposes. Depending on the circumstances, a short-term or long-term capital gain or loss may be realized.

MAKING AN EXCHANGE

Instructions for exchanges for the Liberty Family of Funds and certain of the Funds may be given in writing or by telephone. Written instructions may require a signature guarantee. Shareholders may have difficulty in making exchanges by telephone through brokers and other financial institutions during times of drastic economic or market changes. If a shareholder cannot contact his broker or financial institution by telephone, it is recommended that an exchange request be made in writing and sent by overnight mail to Boston Financial Data Services, Inc., Attention: Federated Division, P.O. Box 8604, Boston, Massachusetts 02266-8604.

Instructions for exchanges for the Liberty Family Retirement Program should be given to the plan administrator.

TELEPHONE INSTRUCTIONS. Telephone instructions made by the investor may be carried out only if a telephone authorization form completed by the investor is on file with the transfer agent. If the instructions are given by a broker, a telephone authorization form completed by the broker must be on file with the transfer agent. Shares may be exchanged between two funds by telephone only if the two funds have identical shareholder registrations. Telephone exchange instructions may be recorded. If reasonable procedures are not followed by the Fund, it may be liable for losses due to unauthorized or fraudulent telephone instructions.

Any Shares held in certificate form cannot be exchanged by telephone but must be forwarded to the transfer agent and deposited to the shareholder's account before being exchanged. Telephone exchange instructions are recorded and will be binding upon the shareholder. Such instructions will be processed as of 4:00 P.M. (Eastern time) and must be received by the transfer agent before that time for Shares to be exchanged the same day. Shareholders exchanging into the Fund will not receive any dividend that is payable to shareholders of record on that date. This privilege may be modified or terminated at any time.

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REDEEMING CLASS C SHARES

The Fund redeems Shares at their net asset value, less any applicable contingent deferred sales charge, next determined after the Fund receives the redemption request. Redemptions will be made on days on which the Fund computes its net asset value. Redemptions can be made through a financial institution or directly from the Fund. Redemption requests must be received in proper form. Redemptions of Shares held through the Liberty Family Retirement Program will be governed by the requirements of the respective plans.

THROUGH A FINANCIAL INSTITUTION

A shareholder may redeem Shares by calling his financial institution (such as a bank or an investment dealer) to request the redemption. Shares will be redeemed at the net asset value, less any applicable contingent deferred sales charge, next determined after the Fund receives the redemption request from the financial institution. Redemption requests through a registered broker/dealer must be received by the broker before 4:00 P.M. (Eastern time) and must be transmitted by the broker to the Fund before 5:00 P.M. (Eastern time) in order for Shares to be redeemed at that day's net asset value. Redemption requests through other financial institutions must be received by the financial institution and transmitted to the Fund before 4:00 P.M. (Eastern time) in order for Shares to be redeemed at that day's net asset value. The financial institution is responsible for promptly submitting redemption requests and providing proper written redemption instructions to the Fund. The financial institution may charge customary fees and commissions for this service.

DIRECTLY FROM THE FUND

BY TELEPHONE. Shareholders who have not purchased through a financial institution may redeem their Shares by telephoning the transfer agent. The proceeds will be mailed to the shareholder's address of record or wire transferred to the shareholder's account at a domestic commercial bank that is a member of the Federal Reserve System, normally within one business day, but in no event longer than seven days after the request. The minimum amount for a wire transfer is $1,000. If at any time the Fund shall determine it necessary to terminate or modify this method of redemption, shareholders would be promptly notified.

An authorization form permitting the transfer agent to accept telephone requests must first be completed. Authorization forms and information on this service are available from Federated Securities Corp. Telephone redemption instructions may be recorded. If reasonable procedures are not followed by the Fund, it may be liable for losses due to unauthorized or fraudulent telephone instructions.

In the event of drastic economic or market changes, a shareholder may experience difficulty in redeeming by telephone. If such a case should occur, another method of redemption, such as redeeming by mail, should be considered.

BY MAIL. Shares may also be redeemed by sending a written request to the transfer agent. The written request should include the shareholder's name, the Fund and class of shares' name, the account number, and the Share or dollar amount requested, and should be signed exactly as the Shares are registered.

If Share certificates have been issued, they must be properly endorsed and should be sent by registered or certified mail with the written request. Shareholders should contact the Fund for assistance in redeeming by mail.

SIGNATURES. Shareholders requesting a redemption of $50,000 or more, a redemption of any amount to be sent to an address other than that on record with the Fund, or a redemption payable other than to the shareholder of record must have signatures on written redemption requests guaranteed by:

- a trust company or commercial bank whose deposits are insured by the Bank Insurance Fund ("BIF");
- a member of the New York, American, Boston, Midwest or Pacific Stock Exchange;
- a savings bank or savings and loan association whose deposits are insured by the Savings Association Insurance Fund ("SAIF"); or

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any other "eligible guarantor institution," as defined in the Securities Exchange Act of 1934.

The Fund does not accept signatures guaranteed by a notary public.

The Fund and its transfer agent have adopted standards for accepting signature guarantees from the above institutions. The Fund may elect in the future to limit eligible signature guarantors to institutions that are members of a signature guarantee program. The Fund and its transfer agent reserve the right to amend these standards at any time without notice.

RECEIVING PAYMENT. Normally, a check for the proceeds is mailed within one business day, but in no event more than seven days, after receipt of a proper written redemption request.

CONTINGENT DEFERRED SALES CHARGE

Shareholders who purchased Shares will pay a 1% contingent deferred sales charge to Federated Securities Corp. for redemptions of those Shares made within one year from the date of purchase. To the extent that a shareholder exchanges between or among Class C Shares in other funds in the Liberty Family of Funds, the time for which the exchanged-for Shares were held will be added, or "tacked," to the time for which the exchanged-from Shares were held for purposes of satisfying the one-year holding period. The contingent deferred sales charge will be calculated based upon the lesser of the original purchase price of the Shares or the net asset value of the Shares when redeemed. For additional information, see "Other Payments to Financial Institutions."

The contingent deferred sales charge will not be imposed on Shares acquired through reinvestment of dividends or distribution of short-term or long-term capital gains. Redemptions are deemed to have occurred in the following order: 1) Shares acquired through the reinvestment of dividends and long-term capital gains, 2) purchases of Shares occurring more than one year before the date of redemption, and 3) purchases of Shares within the previous year.

The contingent deferred sales charge will not be imposed when a redemption results from a tax-free return under the following circumstances: (i) a total or partial distribution from a qualified plan, other than an IRA, Keogh Plan, or a custodial account, following retirement; (ii) a total or partial distribution from an IRA, Keogh Plan, or a custodial account, after the beneficial owner attains age 59-1/2; or (iii) from the death or total and permanent disability of the beneficial owner. The exemption from the contingent deferred sales charge for qualified plans, an IRA, Keogh Plan, or a custodial account does not extend to account transfers, rollovers, and other redemptions made for purposes of reinvestment.

A contingent deferred sales charge will not be imposed in connection with exchanges of Shares for Class C Shares in other Liberty Family Funds or Liberty Family Retirement Program funds, or in connection with redemptions by the Fund of accounts with low balances. No contingent deferred sales charge will be imposed on redemptions from the Liberty Family Retirement Program. For additional information, see "Other Payments to Financial Institutions."

REDEMPTION BEFORE PURCHASE INSTRUMENTS CLEAR

When Shares are purchased by check or through the Automated Clearing House, the proceeds from the redemption of those Shares are not available, and the Shares may not be exchanged, until the Fund or its agents are reasonably certain that the purchase check has cleared, which could take up to ten calendar days.

SYSTEMATIC WITHDRAWAL PROGRAM

Shareholders who desire to receive payments of a predetermined amount not less than $100 may take advantage of the Systematic Withdrawal Program. Under this program, Shares are redeemed to provide for periodic withdrawal payments in an amount directed by the shareholder. Depending upon the amount of the withdrawal payments, the amount of dividends paid and capital gains distributions with respect to Shares, and the fluctuation of the net asset value of Shares redeemed under this program, redemptions may reduce, and eventually deplete, the shareholder's investment in Shares. For this reason, payments under this program should not be considered as yield or income on the shareholder's investment in Shares. To be eligible to participate in this program, a shareholder must have an account value of at least $10,000. A shareholder may apply for participation in this program through his financial institution.

ACCOUNTS WITH LOW BALANCES

Due to the high cost of maintaining accounts with low balances, the Fund may

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redeem Shares in any account, except retirement accounts, and pay the proceeds to the shareholder if the account balance falls below the required minimum value of $1,500. This requirement does not apply, however, if the balance falls below $1,500 because of changes in the Fund's net asset value.

Before Shares are redeemed to close an account, the shareholder is notified in writing and allowed 30 days to purchase additional Shares to meet the minimum requirement.

SHAREHOLDER INFORMATION

VOTING RIGHTS

Each Share gives the shareholder one vote in Director elections and other matters submitted to shareholders for vote. All shares of each portfolio or class in the Corporation have equal voting rights, except that in matters affecting only a particular Fund or class, only shares of that Fund or class are entitled to vote. As of November 29, 1993, Liberty Bank & Trust, custodian for IRM Retirement Plans, may be deemed to control the Fund due to its record ownership of Investment Shares of the Fund.

As a Maryland corporation, the Corporation is not required to hold annual shareholder meetings. Shareholder approval will be sought only for certain changes in the Fund's operation and for the election of Directors under certain circumstances.

Directors may be removed by a two-thirds vote of the number of Directors prior to such removal or by a two-thirds vote of the shareholders at a special meeting. A special meeting of shareholders shall be called by the Directors upon the written request of shareholders owning at least 10% of the Corporation's outstanding shares entitled to vote.

TAX INFORMATION

FEDERAL INCOME TAX

The Fund will pay no federal income tax because the Fund expects to meet the requirements of the Internal Revenue Code, as amended, applicable to regulated investment companies and to receive the special tax treatment afforded to such companies.

The Fund will be treated as a single, separate entity for federal income tax purposes so that income (including capital gains) and losses realized by the Corporation's other portfolios, if any, will not be combined for tax purposes with those realized by the Fund.

Unless otherwise exempt, shareholders are required to pay federal income tax on any dividends and other distributions, including capital gains distributions, received. This applies whether dividends and distributions are received in cash or as additional Shares. Distributions representing long-term capital gains, if any, will be taxable to shareholders as long-term capital gains no matter how long the shareholders have held the Shares. No federal income tax is due on any dividends earned in an IRA or qualified retirement plan until distributed.

PENNSYLVANIA CORPORATE AND PERSONAL PROPERTY TAXES

In the opinion of Houston, Houston & Donnelly, counsel to the Corporation:

The Corporation is subject to the Pennsylvania corporate franchise tax; and

Fund Shares are exempt from personal property taxes imposed by counties, municipalities, and school districts in Pennsylvania.

Shareholders are urged to consult their own tax advisers regarding the status of their accounts under state and local tax laws.

PERFORMANCE INFORMATION

From time to time the Fund advertises the total return and yield for Class C Shares.

Total return represents the change, over a specified period of time, in the

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value of an investment in Class C Shares after reinvesting all income and capital gains distributions. It is calculated by dividing that change by the initial investment and is expressed as a percentage.

The yield of Class C Shares is calculated by dividing the net investment income per Share (as defined by the Securities and Exchange Commission) earned by Class C Shares over a thirty-day period by the maximum offering price per Share on the last day of the period. This number is then annualized using semi-annual compounding. The yield does not necessarily reflect income actually earned by Class C Shares and, therefore, may not correlate to the dividends or other distributions paid to shareholders.

The performance information reflects the effect of non-recurring charges, such as the contingent deferred sales charge, which, if excluded, would increase the total return and yield.

Total return and yield will be calculated separately for Class C Shares, Investment Shares, and Class A Shares. Because Class C Shares are subject to a shareholder services fee and a 12b-1 fee, total return and yield for Investment Shares may exceed that of Class C Shares for the same period. Because Class A Shares are subject to a lower 12b-1 fee than are Class C Shares and no shareholder services plan fee, total return and yield for Class A Shares may exceed that of Class C Shares for the same period.

From time to time, the Fund may advertise the performance of Class C Shares using certain reporting services and/or compare the performance of Class C Shares to certain indices.

OTHER CLASSES OF SHARES

The Fund does not presently offer Class B shares.

Class A Shares are sold to customers of financial institutions with a maximum sales charge of 4.50% and are distributed pursuant to a Rule 12b-1 Plan adopted by the Fund whereby the distributor is paid a fee of up to .25 of 1% of the Class A Shares' average daily net assets . Class A Shares are subject to a minimum initial investment of $500, unless the investment is in a retirement account, in which case the minimum initial investment is $50.

Investment Shares are sold to accounts for which financial institutions act in an agency capacity at net asset value plus a maximum sales charge of 5.75% and are distributed without a 12b-1 fee, a shareholder services fee, a redemption fee or a contingent deferred sales charge. Investment Shares are subject to a minimum initial investment of $500, except for retirement accounts, in which case the minimum initial investment is $50.

The amount of dividends payable to holders of Investment Shares will generally exceed that of Class C Shares and of Class A Shares by the difference between Class Expenses borne by shares of each respective class.

The stated advisory fee is the same for all classes of the Fund.

CAPITAL GROWTH FUND
FINANCIAL HIGHLIGHTS--INVESTMENT SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

Reference is made to Report of Ernst & Young, Independent Auditors, on page 36.

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,		YEAR ENDED DECEMBER 31,		
	1993	1992***	1991	1990	1989**
<S>	<C>	<C>	<C>	<C>	<C>
NET ASSET VALUE, BEGINNING OF PERIOD	$ 11.84	$ 12.00	$ 9.11	$ 9.97	$ 10.00
INCOME FROM INVESTMENT OPERATIONS					
Net investment income	0.13	0.12	0.31	0.32	0.03
Net realized and unrealized gain (loss) on investments	1.71	(0.18)	2.91	(0.86)	(0.04)
Total from investment operations	1.84	(0.06)	3.22	(0.54)	(0.01)

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LESS DISTRIBUTIONS					
Dividends to shareholders from net investment income	(0.14)	(0.10)	(0.30)	(0.32)	(0.02)
Distributions to shareholders from net realized gain on investment transactions	(0.16)	--	(0.02)	--	--
Distributions in excess of net investment income	--	--	(0.01)(a)	--	--
TOTAL DISTRIBUTIONS	(0.30)	(0.10)	(0.33)	(0.32)	(0.02)
NET ASSET VALUE, END OF PERIOD	$ 13.38	$ 11.84	$ 12.00	$ 9.11	$ 9.97
TOTAL RETURN*	15.70%	-0.53%(c)	35.68%	-5.43%	-0.02%(c)
RATIOS TO AVERAGE NET ASSETS					
Expenses	1.00%	1.00%(b)	1.00%	1.00%	1.19%(b)
Net investment income	0.98%	1.28%(b)	2.73%	3.54%	4.21%(b)
Expense waiver/reimbursement (d)	2.37%	1.50%(b)	1.50%	1.50%	0.78%(b)
SUPPLEMENTAL DATA					
Net assets, end of period (000 omitted)	$14,836	$18,161	$13,513	$7,484	$5,525
Portfolio turnover rate	74 %	29 %	57%	83%	0 %

</TABLE>

* Based on net asset value which does not reflect the sales load or redemption fee, if applicable.

** Reflects operations for the period from November 30, 1989 (date of initial public investment) to December 31, 1989.

***_ During the ten month period, the Fund changed its fiscal year-end from December 31 to October 31.

(a) Distributions in excess of net investment income for the period ended December 31, 1991 were a result of certain book and tax timing differences. These distributions did not represent a return of capital for federal income tax purposes.

(b) Computed on an annualized basis.

(c) Cumulative total return.

(d) This expense decrease is reflected in both the expense and net investment income ratios shown above (Note 5).

Further information about the Fund's performance is contained in the Fund's annual report for the fiscal year ended October 31, 1993, which can be obtained free of charge.

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
FINANCIAL HIGHLIGHTS--CLASS A SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

Reference is made to Report of Ernst & Young, Independent Auditors on page 36.

<TABLE>
<CAPTION>

<S>	YEAR ENDED OCTOBER 31, <C> 1993	<C> 1992**
NET ASSET VALUE, BEGINNING OF PERIOD	$ 11.84	$ 12.00
INCOME FROM INVESTMENT OPERATIONS		
Net investment income	0.09	0.11
Net realized and unrealized gain (loss) on investments	1.71	(0.18)
Total from investment operations	1.80	(0.07)

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LESS DISTRIBUTIONS		
Dividends to shareholders from net investment income	(0.10)	(0.09)
Distributions to shareholders from net realized gain on investment transactions	(0.16)	--
Total distributions	(0.26)	(0.09)
NET ASSET VALUE, END OF PERIOD	$ 13.38	$ 11.84
TOTAL RETURN*	15.34%	-0.61 %(b)
RATIOS TO AVERAGE NET ASSETS		
Expenses	1.25%	1.17 %(a)
Net investment income	0.73%	1.19 %(a)
Expense waiver/reimbursement (c)	2.37%	1.33 %(a)
SUPPLEMENTAL DATA		
Net assets, end of period (000 omitted)	$ 11,609	$ 6,540
Portfolio turnover rate	74%	29 %

</TABLE>

* Based on net asset value which does not reflect the sales load or redemption fee, if applicable.

** Reflects operations for the period from January 16, 1992 (date of initial public investment) to October 31, 1992.

(a) Computed on an annualized basis.

(b) Cumulative total return.

(c) This expense decrease is reflected in both the expense and net investment income ratios shown above (Note 5).

Further information about the Fund's performance is contained in the Fund's annual report for the fiscal year ended October 31, 1993, which can be obtained free of charge.

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
PORTFOLIO OF INVESTMENTS
OCTOBER 31, 1993

<TABLE>
<CAPTION>

SHARES		VALUE
<C>	<S>	<C>
COMMON STOCKS--79.6%		
<C>	<S>	<C>
	AUTOMOTIVE PARTS--3.4%	
40,000	Allen Group, Inc.	$ 900,000
	BANKING & FINANCE--10.0%	
30,000	MBNA Corp.	1,023,750
15,000	NationsBank Corp.	699,375
36,500	AT&T Capital Corp.	953,562
	Total	2,676,687
	BASIC INDUSTRY--6.6%	
20,000	Cleveland-Cliffs, Inc.	720,000
15,000	Harsco Corp.	630,000

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15,000	Medusa Corp.	412,500
	Total	1,762,500
	CAPITAL GOODS--17.6%	
35,000	Alliant Techsystems, Inc.**	1,019,375
15,000	Dover Corp.	862,500
30,000	Genlyte Group, Inc.**	112,500
25,000	Greenfield Industries, Inc.	412,500
30,000	Kenetech Corp.**	468,750
25,000	MagneTek, Inc.**	378,125
10,000	Sensormatic Electronics Corp.	465,000
10,000	Stewart & Stevenson Services, Inc.	452,500
25,000	Valence Technology, Inc.**	531,250
	Total	4,702,500
	CONSUMER GOODS--RETAIL--6.8%	
25,000	Blockbuster Entertainment Corp.	709,375
75,000	Service Merchandise, Inc.**	750,000
25,000	Showbiz Pizza Time, Inc.**	362,500
	Total	1,821,875
	CONSUMER PRODUCTS--13.1%	
15,000	Dial Corp.	$ 575,625
75,000	Dr. Pepper/7-Up Holding Co.**	1,565,625
75,000	ADT, Limited**	675,000
10,000	Nike, Inc.	483,750
10,000	Starter Corp.**	202,500
	Total	3,502,500
	ENERGY--2.3%	
25,000	Valero Energy Corp.	628,125
	HEALTH CARE--12.5%	
20,000	Genentech, Inc.**	922,500
25,000	Genetics Institute, Inc.**	1,062,500
40,000	National Health Laboratories, Inc.	545,000
15,000	Spacelabs Medical, Inc.**	356,250
10,000	U.S. Healthcare, Inc.	463,750
	Total	3,350,000
	INSURANCE--2.0%	
15,000	Travelers Corp.	528,750
	TRANSPORTATION--3.1%	
15,000	American President Companies, Ltd.	832,500
	WASTE DISPOSAL--2.2%	
150,000	Chambers Development, Inc.**	600,000
	TOTAL COMMON STOCKS (IDENTIFIED COST, $17,710,139)	21,305,437

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<CAPTION> PRINCIPAL AMOUNT OR SHARES <C>	<S>	VALUE <C>
CONVERTIBLE SECURITIES--15.5%		
	CONSUMER PRODUCTS--9.0%	
$ 3,000,000	Coleman Worldwide Corp. LYON's, 5/27/2013	$ 825,000
400,000	Mattel, Inc., Conv. Deb., 8.00%, 3/15/2001	728,000
20,000	Sun America Inc. $2.68 PERCs, 3/15/2001	850,000
	Total	2,403,000
	HEALTH CARE--2.6%	
1,000,000	Roche Holdings Inc. 4.75% LYON, 9/23/2008	523,750
974	Schering-Plough Corp., Warrant Units, 12/2/96**	176,294
	Total	700,044
	TRANSPORTATION--3.9%	
800,000	Greyhound Lines, Inc., Conv. Deb., 8.56% 3/31/2007	1,048,000
	TOTAL CONVERTIBLE SECURITIES (IDENTIFIED COST, 3,553,444)	4,151,044
*REPURCHASE AGREEMENT--2.6%		
685,000	J.P. Morgan Securities, Inc., 2.99%, dated 10/29/93, due 11/1/93 (at amortized cost) (Note 2B)	685,000
	TOTAL INVESTMENTS (IDENTIFIED COST $21,948,583)	$ 26,141,481\

</TABLE>

* The repurchase agreement is fully collateralized by U.S. government and/or agency obligations based on market prices at the date of the portfolio. The investment in the repurchase agreement is through participation in a joint account with other Federated funds.

**_ Non-income producing.

_ The cost of investments for federal tax purposes amounts to $21,948,583. The net unrealized appreciation of investments on a federal tax basis amounts to $4,192,898, which is comprised of $5,755,663 appreciation and $1,562,765 depreciation at October 31, 1993.

Note: The categories of investments are shown as a percentage of net assets ($26,758,883) at October 31, 1993.

LYON--Liquid Yield Option Note

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
STATEMENT OF ASSETS AND LIABILITIES
OCTOBER 31, 1993

<TABLE>

<S>	<C>	<C>
ASSETS:		
Investments, at value (Notes 2A and 2B) (identified and tax cost, $21,948,583)		$ 26,141,481
Cash		5,998
Receivable for investments sold		528,442
Receivable for capital stock sold		83,104
Dividends and interest receivable		21,836

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Deferred expenses (Note 2F)		434
Total assets		26,781,295
LIABILITIES:		
Payable for capital stock redeemed	$ 5,497	
Accrued expenses	16,915	
Total liabilities		22,412
NET ASSETS for 1,999,623 shares of capital stock outstanding		$ 26,758,883
NET ASSETS CONSIST OF:		
Paid-in capital		$ 22,241,370
Net unrealized appreciation of investments		4,192,898
Accumulated undistributed net realized gain on investments		313,497
Undistributed net investment income		11,118
Total		$ 26,758,883
NET ASSET VALUE AND REDEMPTION PRICE Per Share:		
Investment Shares (net assets of $14,836,418 / 1,108,550 SHARES OF CAPITAL STOCK OUTSTANDING)		$13.38
CLASS A SHARES (NET ASSETS OF $11,608,735 / 867,599 SHARES OF CAPITAL STOCK OUTSTANDING)		$13.38
CLASS C SHARES (NET ASSETS OF $313,730 / 23,474 SHARES OF CAPITAL STOCK OUTSTANDING)		$13.36
COMPUTATION OF OFFERING PRICE:		
Investment Shares Offering Price Per Share (100/94.25 of $13.38)*		$14.20
Class A Shares Offering Price Per Share (100/95.50 of $13.38)*		$14.01

</TABLE>

* On sales of $10,000 or more, the offering price is reduced as stated under "What Shares Cost" in the prospectus.

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
STATEMENT OF OPERATIONS
YEAR ENDED OCTOBER 31, 1993

<TABLE>

<S>	<C>	<C>	<C>
INVESTMENT INCOME:			
Dividends			$ 285,993
Interest			225,715
Total investment income (Note 2C)			511,708
EXPENSES:			
Investment advisory fee (Note 5)		$ 165,261	
Directors fees		5,265	
Administrative personnel and services (Note 5)		240,157	
Custodian, transfer and dividend disbursing agent fees and expenses		192,808	
Fund share registration costs		111,451	
Auditing fees		18,067	
Legal fees		14,841	
Distribution services fees (Note 5)		26,209	
Printing and postage		112,187	

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Insurance premiums		7,662	
Taxes		480	
Miscellaneous		2,548	
Total expenses		896,936	
Deduct--			
Waiver of investment advisory fee (Note 5)	$ 165,261		
Reimbursement of other operating expenses (Note 5)	446,749	612,010	
Net expenses			284,926
Net investment income			226,782
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:			
Net realized gain on investment transactions (identified cost basis)			303,564
Net change in unrealized appreciation on investments			3,026,413
Net realized and unrealized gain on investments			3,329,977
Change in net assets resulting from operations			$ 3,556,759

</TABLE>

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
STATEMENT OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

<S>	YEAR ENDED OCTOBER 31, <C> 1993	<C> 1992*
INCREASE (DECREASE) IN NET ASSETS:		
OPERATIONS--		
Net investment income	$ 226,782	$ 205,334
Net realized gain on investment transactions ($303,564 and $340,685 net gain, respectively, as computed for federal income tax purposes)	303,564	293,810
Change in unrealized appreciation (depreciation) of investments	3,026,413	(932,519)
Change in net assets resulting from operations	3,556,759	(433,375)
DISTRIBUTIONS TO SHAREHOLDERS (NOTE 3)--		
Dividends to shareholders from net investment income:		
Investment Shares	(174,344)	(132,621)
Class A Shares	(76,306)	(27,448)
Dividends to shareholders from net realized gain on investment transactions:		
Investment Shares	(245,773)	--
Class A Shares	(95,185)	--
Change in net assets from distributions to shareholders	(591,608)	(160,069)
FUND SHARE (PRINCIPAL) TRANSACTIONS (NOTE 4)--		
Proceeds from sale of shares	11,839,537	13,308,632
Net asset value of shares issued to shareholders electing to receive payment of dividends in Fund shares	531,548	150,206
Cost of shares redeemed	(13,278,176)	(1,677,459)
Change in net assets from Fund share transactions	(907,091)	11,781,379
Change in net assets	2,058,060	11,187,935

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NET ASSETS:		
Beginning of period	24,700,823	13,512,888
End of period (including undistributed net investment income of $11,118 and $34,986, respectively)	$ 26,758,883	$ 24,700,823

</TABLE>

* Ten months ended October 31, 1992.

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 1993

(1) ORGANIZATION

Investment Series Funds, Inc. (the "Corporation") is registered under the Investment Company Act of 1940, as amended, as a diversified, open-end, management investment company with two portfolios. The financial statements included herein present only those of Capital Growth Fund (the "Fund"). The financial statements of the other portfolios are presented separately. The assets of each portfolio are segregated and a shareholder's interest is limited to the portfolio in which shares are held.

Capital Growth Fund provides three classes of Shares ("Investment Shares" "Class A Shares" and "Class C Shares"). Class A and Class C Shares are identical in all respects to Investment Shares except that Class A and Class C Shares are sold pursuant to a distribution plan ("Plan") adopted in accordance with the Investment Company Act of 1940 Rule 12b-1. Class A Shares are subject to a maximum sales load of 4.50%, a 12b-1 fee of 0.25% and may be subject to a redemption fee but are not subject to a shareholders servicing fee. Class C Shares are not subject to a sales load but are subject to a 12b-1 fee of 0.75%, a shareholder servicing fee of 0.25%, and contingent deferred sales charge of 1.00%.

On December 18, 1992, Shareholders of the Fund met and approved the reorganization of the Fund as a portfolio of Investment Series Funds, Inc., a Maryland Corporation.

(2) SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principals.

A. INVESTMENT VALUATIONS--Listed equity securities are valued at last sale prices reported on national securities exchanges. Unlisted securities or listed securities for which there were no sales on the valuation date are generally valued at the mean between bid and asked prices. Short-term obligations are valued at the mean between bid and asked prices furnished by an independent pricing service. However, short-term obligations with maturities of sixty days or less are valued at amortized cost, which approximates value.

B. REPURCHASE AGREEMENTS--It is the policy of the Fund to require the custodian bank to take possession, to have legally segregated in the Federal Reserve Book Entry System or to have segregated within the custodian bank's vault, all securities held as collateral in support of repurchase and reverse repurchase agreement investments. Additionally, procedures have been established by the Fund to monitor, on a daily basis, the market value of each repurchase agreement's underlying collateral to ensure the value at least equals the principal amount of the repurchase transaction, including accrued interest.

The Fund is also permitted to enter into reverse repurchase agreements, in which the Fund sells U.S. government securities to financial institutions and agrees to repurchase the securities at an agreed upon price and date.

The Fund will only enter into repurchase and reverse repurchase agreements with banks and other recognized financial institutions such as broker/dealers which are deemed by the Fund's adviser to be creditworthy pursuant to guidelines established by the Directors. Risks may arise from the potential inability of counterparties to honor the terms of a repurchase agreements. Accordingly, the Fund could receive less than the repurchase price on the sale of collateral securities.

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C. INCOME--Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis and includes discount earned, less any premium.

D. FEDERAL TAXES--It is the Fund's policy to comply with the provisions of the Internal Revenue Code, applicable to regulated investment companies and to distribute to shareholders each year substantially, all of its taxable income, including any net realized gain on investments. Accordingly, no provision for federal tax is necessary.

E. WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS--The Fund may engage in when-issued or delayed delivery transactions. The Fund records when-issued securities and maintains security positions such that sufficient liquid assets will be available to make payment for the securities purchased. Securities purchased on a when-issued or delayed delivery basis are marked to market daily and begin earning interest on the settlement date.

F. DEFERRED EXPENSES--Costs incurred by the Fund with respect to registration of its shares in its first fiscal year, excluding the initial expenses of registering the shares, have been deferred and are being amortized using the straight-line method over a period of five years from the Funds commencement date.

G. OTHER--Investment transactions are accounted for on the date of the transaction.

(3) DIVIDENDS AND DISTRIBUTIONS

Dividends from net investment income are declared and paid quarterly. Distributions of any net realized capital gains will be made at least once every twelve months. Dividends and capital gain distributions, if any, are recorded on the ex-dividend date.

CAPITAL GROWTH FUND

(4) CAPITAL STOCK

At October 31, 1993 there were 1,000,000,000 of ($.0001) par value capital stock authorized. Transactions in capital stock were as follows:

<TABLE>
<CAPTION>

<S>	YEAR ENDED OCTOBER 31, 1993 <C> SHARES	<C> AMOUNT	YEAR ENDED OCTOBER 31, 1992* <C> SHARES	<C> AMOUNT
INVESTMENT SHARES				
Shares outstanding, beginning of period	1,533,399	$ 16,319,992	1,125,747	$ 11,367,082
Shares sold	341,272	4,316,048	484,535	5,894,279
Shares issued to shareholders electing to receive payment of dividends in Fund shares	30,603	380,718	10,536	129,297
Shares redeemed	(796,724)	(9,811,729)	(87,419)	(1,070,666)
Shares outstanding, end of period	1,108,550	$ 11,205,029	1,533,399	$ 16,319,992

</TABLE>

<TABLE>
<CAPTION>

<S>	YEAR ENDED OCTOBER 31, 1993 <C> SHARES	<C> AMOUNT	YEAR ENDED OCTOBER 31, 1992* <C> SHARES	<C> AMOUNT
CLASS A SHARES				
Shares outstanding, beginning of period	552,251	$ 6,828,469	--	$ --
Shares sold	575,342	7,204,386	599,919	7,414,353
Shares issued to shareholders electing to receive payment of dividends in Fund shares	12,091	150,830	1,714	20,909
Shares redeemed	(272,085)	(3,450,895)	(49,382)	(606,793)
Shares outstanding, end of period	867,599	$ 10,732,790	552,251	$ 6,828,469

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</TABLE>

* For the ten months ended October 31, 1992.

CAPITAL GROWTH FUND

<TABLE>
<CAPTION>

<S>	YEAR ENDED OCTOBER 31, 1993** <C> SHARES	<C> AMOUNT
CLASS C SHARES		
Shares outstanding, beginning of period	--	$ --
Shares sold	24,661	319,103
Shares issued to shareholders electing to receive payment of dividends in Fund shares	--	--
Shares redeemed	(1,187)	(15,552)
Shares outstanding, end of period	23,474	$ 303,551

</TABLE>

** For the period from April 13, 1993 (date of initial public investment) to October 31, 1993.

(5) INVESTMENT ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

Federated Advisers ("Adviser"), the Fund's investment adviser, receives for its services an annual investment advisory fee equal to (a) 0.55% of the average daily net assets of the Fund, and (b) 4.5% of the gross income of the Fund. The Adviser has voluntarily agreed to waive a portion or all of its fee and reimburse the Fund a portion of its annual operating expenses. The Adviser can terminate this voluntary waiver and reimbursement at any time at its sole discretion. For the period ended October 31, 1993, the investment advisory fee amounted to $165,261, all of which was voluntarily waived. In addition, the Adviser voluntarily reimbursed $446,749 of the Fund's other operating expenses.

Organization expenses ($13,190) and start-up administrative service expenses ($92,451) were borne initially by the Adviser. The Fund has agreed to pay the Adviser, at an annual rate of .005 of 1% of average daily net assets and .01 of 1% of average daily net assets for organization expenses and start-up administrative service expenses, respectively, until expenses borne by the Adviser are reimbursed. This commitment will expire five years from the date the Corporation's portfolio became effective. For the period ended October 31, 1993, the Fund paid the Adviser $736 for organization expenses and $1,471 for start-up administrative services pursuant to this agreement.

Administrative personnel and services were provided at approximate cost by Federated Administrative Services, Inc. Certain of the Officers and Directors of the Fund are Officers and Directors of the above corporations.

The Fund has adopted a Distribution Plan pursuant to Rule 12b-1 under the Investment Company Act of 1940. The Fund will reimburse Federated Securities Corp., the principal distributor, from the assets of the Class A and Class C Shares of the Fund, for fees it paid which relate to the distribution and administration of the Fund's Class A and Class C Shares. The Plan provides that the Fund may incur distribution expenses of up to 0.25 of 1% for Class A Shares and 0.75 of 1% of Class C Shares of the average daily net assets, annually, to pay commissions, maintenance fees, and to compensate FSC. For the period ended October 31, 1993, FSC earned $25,677 and $532 for Class A and Class C Shares, respectively.

CAPITAL GROWTH FUND

(6) INVESTMENT TRANSACTIONS

Purchases, and sales of investments, excluding short-term securities for the fiscal year ended October 31, 1993 were as follows:

<TABLE>

<S>	<C>
PURCHASES	$ 18,804,799
SALES AND MATURITIES	$ 20,808,325

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</TABLE>

REPORT OF ERNST & YOUNG, INDEPENDENT AUDITORS

The Directors and Shareholders of
INVESTMENT SERIES FUNDS, INC.

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of Capital Growth Fund (one of the portfolios comprising the Investment Series Funds, Inc.) as of October 31, 1993, and the related statement of operations for the year then ended, the statement of changes in net assets for the year ended October 31, 1993 and for the ten months ended October 31, 1992 and the financial highlights (see pages 2, 23 and 24 of this prospectus) for the periods presented. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to gain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 1993, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Capital Growth Fund of Investment Series Funds, Inc. at October 31, 1993, the results of its operations for the year then ended, the changes in its net assets for the year ended October 31, 1993 and for the ten months ended October 31, 1992, and the financial highlights for the periods presented, in conformity with generally accepted accounting principles.

ERNST & YOUNG

Pittsburgh, Pennsylvania
December 10, 1993

ADDRESSES

<TABLE>

<S>	<C>	<C>
Investment Series Funds, Inc.		
	Capital Growth Fund Class C Shares	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Distributor		
	Federated Securities Corp.	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Investment Adviser		
	Federated Advisers	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Custodian		
	State Street Bank and Trust Company	P.O. Box 8604 Boston, Massachusetts 02266-8604
Transfer Agent and Dividend Disbursing Agent		
	Federated Services Company	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Legal Counsel		
	Houston, Houston & Donnelly	2510 Centre City Tower Pittsburgh, Pennsylvania 15222

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Legal Counsel

Dickstein, Shapiro & Morin	2101 L Street, N.W. Washington, D.C. 20037

- ---

Independent Auditors

Ernst & Young	One Oxford Centre Pittsburgh, Pennsylvania 15219

- ---

</TABLE>

CAPITAL GROWTH FUND
CLASS C SHARES
PROSPECTUS

A Diversified Portfolio of
Investment Series Funds, Inc., an
Open-End,
Management Investment Company

December 31, 1993

FEDERATED SECURITEIS CORP.
[LOGO]
DISTRIBUTOR
A Subsidiary of Federated Investors
Federated Investors Tower
Pittsburgh, PA 15222-3779

1102503A-C (12/93)

CAPITAL GROWTH FUND
(A PORTFOLIO OF INVESTMENT SERIES FUNDS, INC.)
INVESTMENT SHARES

PROSPECTUS

The Investment Shares of Capital Growth Fund (the "Fund") represent interests in a diversified portfolio of securities which is an investment portfolio of Investment Series Funds, Inc. (the "Corporation"), an open-end, management investment company (a mutual fund).

The investment objective of the Fund is appreciation of capital.

This prospectus contains the information you should read and know before you invest in Investment Shares of the Fund. Keep this prospectus for future reference.

The Fund has also filed a Combined Statement of Additional Information for Investment Shares, Class A Shares (formerly, Liberty Shares), and Class C Shares dated December 31, 1993, with the Securities and Exchange Commission. The information contained in the Combined Statement of Additional Information is incorporated by reference into this prospectus. You may request a copy of the Combined Statement of Additional Information free of charge by calling 1-800-235-4669. To obtain other information, or make inquiries about the Fund, contact your financial institution.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE SHARES OFFERED BY THIS PROSPECTUS ARE NOT DEPOSITS OR OBLIGATIONS OF ANY BANK, ARE NOT ENDORSED OR GUARANTEED BY ANY BANK, AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE BOARD, OR ANY OTHER GOVERNMENT AGENCY. INVESTMENT IN THESE SHARES INVOLVES INVESTMENT RISKS INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

Prospectus dated December 31, 1993

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TABLE OF CONTENTS

SUMMARY OF FUND EXPENSES 1

FINANCIAL HIGHLIGHTS--INVESTMENT SHARES 2

INVESTMENT FAMILY OF FUNDS 3

GENERAL INFORMATION 3

INVESTMENT INFORMATION 3

- Investment Objective 3
- Investment Policies 3
  - Acceptable Investments 4
  - Corporate Debt Obligations 4
  - Repurchase Agreements 4
  - Restricted and Illiquid Securities 5
  - When-Issued and Delayed Delivery Transactions 5
  - Foreign Securities 5
  - Investing in Securities of Other Investment Companies 5
  - Put and Call Options 6
    - Risks 6
  - Lending of Portfolio Securities 6
- Portfolio Turnover 6
- Investment Limitations 6

INVESTMENT SERIES FUNDS, INC. INFORMATION 7

- Management of the Corporation 7
  - Board of Directors 7
  - Investment Adviser 7
    - Advisory Fees 7
    - Adviser's Background 7
- Distribution of Investment Shares 8
  - Administrative Service Arrangements 8
- Administration of the Fund 9
  - Administrative Services 9
  - Custodian 9
  - Transfer Agent and Dividend Disbursing Agent 9
  - Legal Counsel 9
  - Independent Auditors 9
- Expenses of the Fund and Investment Shares 9
- Brokerage Transactions 9

NET ASSET VALUE 10

INVESTING IN INVESTMENT SHARES 10

- Share Purchases 10
  - Through a Financial Institution 10
  - Directly from the Distributor 10
- Minimum Investment Required 11
- What Shares Cost 11
  - Dealer Concession 12
- Reducing the Sales Charge 12
  - Quantity Discounts and Accumulated Purchases 12
  - Letter of Intent 12
  - Reinvestment Privilege 13
  - Concurrent Purchases 13

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Systematic Investment Program 13
Subaccounting Services 13
Certificates and Confirmations 13
Dividends and Distributions 13
Retirement Plans 14

EXCHANGE PRIVILEGE 14

Reduced Sales Charge 14
Requirements for Exchange 14
Tax Consequences 14
Making an Exchange 15
Telephone Instructions 15

REDEEMING INVESTMENT SHARES 15

Through a Financial Institution 15
Directly from the Fund 16
By Telephone 16
By Mail 16
Signatures 16
Receiving Payment 17
Systematic Withdrawal Program 17
Redemption Before Purchase
Instruments Clear 17
Accounts with Low Balances 17

SHAREHOLDER INFORMATION 17

Voting Rights 17

TAX INFORMATION 18

Federal Income Tax 18
Pennsylvania Corporate and Personal
Property Taxes 18

PERFORMANCE INFORMATION 18

OTHER CLASSES OF SHARES 19

Financial Highlights--Class A Shares 20
Financial Highlights--Class C Shares 21

FINANCIAL STATEMENTS 22

REPORT OF ERNST & YOUNG,
INDEPENDENT AUDITORS 32

ADDRESSES Inside Back Cover

SUMMARY OF FUND EXPENSES--INVESTMENT SHARES

<TABLE>

<S>	<C>
SHAREHOLDER TRANSACTION EXPENSES	
Maximum Sales Load Imposed on Purchases (as a percentage of offering price)	5.75%
Maximum Sales Load Imposed on Reinvested Dividends (as a percentage of offering price)	None
Deferred Sales Load (as a percentage of original purchase price or redemption proceeds as applicable)	None
Redemption Fee (as a percentage of amount redeemed, if applicable)	None
Exchange Fee	None
ANNUAL INVESTMENT SHARES OPERATING EXPENSES (As a percentage of average net assets)	
Management Fee (after waiver) (1)	0.00%
12b-1 Fee	None

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Other Expenses (after expense reimbursement)	1.00%
Total Investment Shares Operating Expenses (2)	1.00%

</TABLE>

(1) The management fee has been reduced to reflect the voluntary waiver of the management fee. The adviser can terminate this voluntary waiver at any time at its sole discretion. The maximum management fee is 0.55% of average daily net assets plus 4.5% of gross income, excluding capital gains or losses.

(2) The Total Investment Shares Operating Expenses would have been 3.37% absent the voluntary waiver of the management fee and the voluntary reimbursement of certain other operating expenses.

THE PURPOSE OF THIS TABLE IS TO ASSIST AN INVESTOR IN UNDERSTANDING THE VARIOUS COSTS AND EXPENSES THAT A SHAREHOLDER OF INVESTMENT SHARES OF THE FUND WILL BEAR, EITHER DIRECTLY OR INDIRECTLY. FOR MORE COMPLETE DESCRIPTIONS OF THE VARIOUS COSTS AND EXPENSES, SEE "INVESTING IN INVESTMENT SHARES" AND "INVESTMENT SERIES FUNDS, INC. INFORMATION." Wire-transferred redemptions of less than $5,000 may be subject to additional fees.

<TABLE>
<CAPTION>

EXAMPLE	1 year	3 years	5 years	10 years
<S>	<C>	<C>	<C>	<C>
You would pay the following expenses on a $1,000 investment assuming (1) 5% annual return and (2) redemption at the end of each time period. As noted in the table above, the Fund charges no redemption fees for Investment Shares	$67	$88	$110	$173

</TABLE>

THE ABOVE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES. ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN.

The information set forth in the foregoing table and example relates only to Investment Shares of the Fund. The Fund also offers two additional classes of shares called Class A Shares and Class C Shares. Investment Shares, Class A Shares, and Class C Shares are all subject to certain of the same expenses. However, Class A Shares are subject to a maximum sales load of 4.50%, a 12b-1 fee of 0.25% and may be subject to a redemption fee but are not subject to a shareholder servicing fee. Class C Shares are not subject to a sales load but are subject to a 12b-1 fee of 0.75%, a shareholder servicing fee of 0.25%, and a contingent deferred sales charge of 1.00%. See "Other Classes of Shares."

CAPITAL GROWTH FUND
FINANCIAL HIGHLIGHTS--INVESTMENT SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

Reference is made to the Report of Ernst & Young, Independent Auditors' on page 32.

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,		YEAR ENDED DECEMBER 31,		
<S>	<C>	<C>	<C>	<C>	<C>
	1993	1992***	1991	1990	1989**
NET ASSET VALUE, BEGINNING OF PERIOD	$ 11.84	$ 12.00	$ 9.11	$ 9.97	$ 10.00
INCOME FROM INVESTMENT OPERATIONS					
Net investment income	0.13	0.12	0.31	0.32	0.03
Net realized and unrealized gain (loss) on investments	1.71	(0.18)	2.91	(0.86)	(0.04)
Total from investment operations	1.84	(0.06)	3.22	(0.54)	(0.01)
LESS DISTRIBUTIONS					
Dividends to shareholders from net investment income	(0.14)	(0.10)	(0.30)	(0.32)	(0.02)
Distributions to shareholders from net realized gain on investment transactions	(0.16)	--	(0.02)	--	--
Distributions in excess of net investment income	--	--	(0.01)(a)	--	--
TOTAL DISTRIBUTIONS	(0.30)	(0.10)	(0.33)	(0.32)	(0.02)
NET ASSET VALUE, END OF PERIOD	$ 13.38	$ 11.84	$ 12.00	$ 9.11	$ 9.97

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TOTAL RETURN*	15.70%	-0.53%(c)	35.68%	-5.43%	-0.02%(c)
RATIOS TO AVERAGE NET ASSETS					
Expenses	1.00%	1.00%(b)	1.00%	1.00%	1.19%(b)
Net investment income	0.98%	1.28%(b)	2.73%	3.54%	4.21%(b)
Expense waiver/reimbursement (d)	2.37%	1.50%(b)	1.50%	1.50%	0.78%(b)
SUPPLEMENTAL DATA					
Net assets, end of period (000 omitted)	$14,836	$18,161	$13,513	$7,484	$5,525
Portfolio turnover rate	74 %	29 %	57 %	83 %	0 %

</TABLE>

* Based on net asset value which does not reflect the sales load or redemption fee, if applicable.

** Reflects operations for the period from November 30, 1989 (date of initial public investment) to December 31, 1989.

*** During the ten month period, the Fund changed its fiscal year-end from December 31 to October 31.

(a) Distributions in excess of net investment income for the period ended December 31, 1991 were a result of certain book and tax timing differences. These distributions did not represent a return of capital for federal income tax purposes.

(b) Computed on an annualized basis.

(c) Cumulative total return.

(d) This expense decrease is reflected in both the expense and net investment income ratios shown above (Note 5).

Further information about the Fund's performance is contained in the Fund's annual report for the fiscal year ended October 31, 1993, which can be obtained free of charge.

(See Notes which are an integral part of the financial statements)

INVESTMENT FAMILY OF FUNDS

The Investment Shares of the Fund are a member of a family of mutual funds, collectively known as the Investment Family of Funds. The other funds in the family are: High Quality Stock Fund, U.S. Government Bond Fund, and Municipal Securities Income Fund, all portfolios of Investment Series Trust; Money Market Management, a money market mutual fund; and Tax-Free Instruments Trust, a tax-free money market mutual fund. All are advised by the same investment adviser as the Fund.

The Investment Family of Funds provides flexibility and diversification for an investor's long-term investment planning. It enables an investor to meet the challenges of changing market conditions by offering convenient exchange privileges which give access to six investment vehicles, and by providing the investment services of proven, professional investment advisers. Information on the Investment Family of Funds and an application form may be obtained by contacting the Corporation.

GENERAL INFORMATION

The Corporation was incorporated under the laws of the State of Maryland on May 20, 1992. Prior to December 18, 1992, the Fund was operated as a portfolio of Investment Series Trust, a Massachusetts business trust established pursuant to a Declaration of Trust dated March 17, 1987. On December 18, 1992, the shareholders of the Fund voted to reorganize the Fund as a portfolio of the Corporation. The Articles of Incorporation permit the Corporation to offer separate series of shares of capital stock representing interests in separate portfolios of securities. The shares in any one portfolio may be offered in separate classes. With respect to this Fund, as of the date of this prospectus, the Board of Directors ("Directors") has established three classes of shares, Investment Shares, Class A Shares (formerly, Liberty Shares), and Class C Shares. This prospectus relates only to Investment Shares ("Shares") of the

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Fund.

A minimum initial investment of $500 is required, except for retirement plans, in which case the minimum initial investment is $50. Shares are sold at net asset value plus a sales charge and are redeemed at net asset value.

INVESTMENT INFORMATION

INVESTMENT OBJECTIVE

The investment objective of the Fund is appreciation of capital. The investment objective cannot be changed without approval of shareholders. While there is no assurance that the Fund will achieve its investment objective, it endeavors to do so by following the investment policies described in this prospectus.

INVESTMENT POLICIES

The Fund pursues its investment objective by investing primarily in equity securities of companies with prospects for above-average growth in earnings and dividends or of companies where significant fundamental changes are taking place. The Fund generally invests in companies with market capitalization of $100,000,000 or more. The investment policies may be changed by the Directors without shareholder approval. Shareholders will be notified before any material change in these policies becomes effective.

ACCEPTABLE INVESTMENTS. Equity securities are selected by the Fund's investment adviser on the basis of traditional research techniques, including assessment of earnings and dividend growth prospects and of the risk and volatility of each company's business. The fundamental changes which the investment adviser will seek to identify in companies include, for example, restructuring of basic businesses or reallocations of assets which present opportunities for significant share price appreciation. At times, the Fund will invest in securities of companies which are deemed by the investment adviser to be candidates for acquisition by other entities as indicated by changes in ownership, changes in standard price to value ratios, and an examination of other standard analytical indices. Under normal circumstances, at least 65% of the value of the Fund's total assets will be invested in equity securities. However, the Fund is not required to purchase or sell these securities if the 65% investment level changes due to increases or decreases in the market value of portfolio securities.

The Fund may invest in preferred stocks, corporate bonds, debentures, notes, warrants, and put options on stocks. For temporary defensive purposes, the Fund may also invest in short-term money market instruments, U.S. government securities, and hold cash in such proportions as the Fund's investment adviser may determine.

CORPORATE DEBT OBLIGATIONS. The Fund may invest up to 35% of the value of its total assets in corporate debt obligations that are rated B or better by a nationally recognized statistical rating organization ("NRSRO"). Corporate debt obligations that are not determined to be investment grade (rated BBB or higher by Standard & Poor's Corporation or Fitch Investors Service, Inc., or Baa or higher by Moody's Investors Service, Inc.) are high-yield, high-risk bonds, typically subject to greater market fluctuations and greater risk of loss of income and principal due to an issuer's default. To a greater extent than investment grade bonds, lower rated bonds tend to reflect short-term corporate, economic, and market developments, as well as investor perceptions of the issuer's credit quality. In addition, lower rated bonds may be more difficult to dispose of or to value than higher-rated, lower-yielding bonds. Bonds rated BB or B, or Ba or B, respectively, by a NRSRO have speculative characteristics. Changes in economic conditions or other circumstances are more likely to lead to weakened capacity to make principal and interest payments than higher rated bonds. Downgraded securities will be evaluated on a case by case basis by the adviser. The adviser will determine whether or not the security continues to be an acceptable investment. If not, the security will be sold. A full description of the rating categories is contained in the Appendix to the Statement of Additional Information.

REPURCHASE AGREEMENTS. The Fund may purchase acceptable investments pursuant to repurchase agreements. Repurchase agreements are arrangements in which banks, broker/dealers, and other recognized financial institutions sell U.S. government or other securities to the Fund and agree at the time of sale to repurchase them at a mutually agreed upon time and price. To the extent that the original seller does not repurchase the securities from the Fund, they could receive less than the repurchase price on any sale of such securities.

RESTRICTED AND ILLIQUID SECURITIES. The Fund intends to invest in restricted securities up to specific limitations. These limitations are not applicable to

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commercial paper issued under Section 4(2) of the Securities Act of 1933. Restricted securities are any securities in which the Fund may otherwise invest pursuant to its investment objective and policies but which are subject to restriction on resale under federal securities law. The Fund will limit investments in illiquid securities, including certain restricted securities not determined by the Directors to be liquid, and repurchase agreements providing for settlement in more than seven days after notice, to 15% of net assets.

The Fund may invest in commercial paper issued in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933. Section 4(2) commercial paper is restricted as to disposition under federal securities law and is generally sold to institutional investors such as the Fund who agrees that the Fund is purchasing the paper for investment purposes and not with a view to public distribution. Any resale by the purchaser must be in an exempt transaction. Section 4(2) commercial paper is normally resold to other institutional investors like the Fund through or with the assistance of the issuer or the investment dealers who make a market in Section 4(2) commercial paper, thus providing liquidity. The Fund believes that Section 4(2) commercial paper and possibly certain other restricted securities which meet the criteria for liquidity established by the Directors of the Corporation are quite liquid. The Fund intends, therefore, to treat the restricted securities which meet the criteria for liquidity established by the Directors, including Section 4(2) commercial paper, as determined by the investment adviser of the Fund, as liquid and not subject to the investment limitation applicable to illiquid securities. In addition, because Section 4(2) commercial paper is liquid, the Fund intends to not subject such paper to the limitation applicable to restricted securities.

WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS. The Fund may purchase acceptable investments on a when-issued or delayed delivery basis. In when-issued and delayed delivery transactions, the Fund relies on the seller to complete the transaction. The seller's failure to complete the transaction may cause the Fund to miss a price or yield considered to be advantageous.

FOREIGN SECURITIES. The Fund may invest up to 10% of its net assets in foreign securities. Investments in foreign securities, particularly those of non-governmental issuers, involve considerations which are not ordinarily associated with investments in domestic issuers. These considerations include the possibility of expropriation, the unavailability of financial information, or the difficulty of interpreting financial information prepared under foreign accounting standards, less liquidity and more volatility in foreign securities markets, the impact of political, social, or diplomatic developments, and the difficulty of assessing economic trends in foreign countries. It may also be more difficult to enforce contractual obligations abroad than would be the case in the United States because of differences in the legal systems. Transaction costs in foreign securities may be higher. The investment adviser will consider these and other factors before investing in foreign securities and will not make such investments unless, in its opinion, such investments will meet the Fund's standards and objective. The Fund will only purchase securities issued in U.S. dollar denominations.

INVESTING IN SECURITIES OTHER INVESTMENT COMPANIES. _The Fund may invest in the securities of other investment companies, but it will not own more than 3% of the total outstanding voting stock of any investment company, invest more than 5% of its total assets in any one investment company, or invest more than 10% of its total assets in investment companies in general. The Fund will only invest in other investment companies that are money market funds having an investment objective and policies similar to its own and primarily for the purpose of investing short-term cash which has not yet been invested in other portfolio instruments. The investment adviser to the Fund will waive its investment advisory fee on assets invested in securities of open-end investment companies.

PUT AND CALL OPTIONS. The Fund may purchase put options on stocks. These options will be used only as a hedge to attempt to protect securities which the Fund holds against decreases in value. The
Fund may purchase these put options as long as they are listed on a recognized options exchange and the underlying stocks are held in its portfolio.

The Fund may also write call options on securities either held in its portfolio or which it has the right to obtain without payment of further consideration or for which it has segregated cash in the amount of any additional consideration. The call options which the Fund writes and sells must be listed on a recognized options exchange. Writing of call options by the Fund is intended to generate income for the Fund and thereby protect against price movements in particular securities in the Fund's portfolio.

RISKS. The effective use of options as hedging techniques depends on the correlation between their prices and the behavior of the Fund's portfolio securities as well as the investment adviser's ability to accurately

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predict the direction of stock prices, interest rates and other relevant economic factors. Prior to exercise or expiration, an option position can only be terminated by entering into a closing purchase or sale transaction. This requires a secondary market on an exchange which may or may not exist for any particular call or put option at any specific time. The absence of a liquid secondary market also may limit the Fund's ability to dispose of the securities underlying an option. The inability to close options also could have an adverse impact on the Fund's ability to effectively hedge its portfolio.

LENDING OF PORTFOLIO SECURITIES. In order to generate additional income, the Fund may lend portfolio securities on a short-term or long-term basis up to one-third of the value of its total assets to broker/dealers, banks, or other institutional borrowers of securities. The Fund will only enter into loan arrangements with broker/dealers, banks, or other institutions which the investment adviser has determined are creditworthy under guidelines established by the Directors and will receive collateral equal to at least 100% of the value of the securities loaned.

PORTFOLIO TURNOVER

Although the Fund does not intend to invest for the purpose of seeking short-term profits, securities in its portfolio will be sold whenever the Fund's investment adviser believes it is appropriate to do so in light of the Fund's investment objective, without regard to the length of time a particular security may have been held.

INVESTMENT LIMITATIONS

The Fund will not:

borrow money directly or through reverse repurchase agreements (arrangements in which the Fund sells a portfolio instrument for a percentage of its cash value with an agreement to buy it back on a set date) or pledge securities except, under certain circumstances, the Fund may borrow up to one-third of the value of its total assets and pledge up to 10% of the value of those assets to secure such borrowings;

sell securities short except, under strict limitations, the Fund may maintain open short positions so long as not more than 10% of the value of its net assets is held as collateral for those positions; or

lend any of its assets except portfolio securities up to one-third of the value of its total assets.

The above investment limitations cannot be changed without shareholder approval. The following limitations, however, may be changed by the Directors without shareholder approval. Shareholders will be notified before any material changes in these limitations become effective.
The Fund will not:

invest more than 5% of its total assets in securities of issuers that have records of less than three years of continuous operations including the operation of any predecessors;

commit more than 5% of its total assets to premiums on open put option positions;

invest more than 5% of its total assets in securities of one issuer (except cash and cash items, repurchase agreements collateralized by U.S. government securities, and U.S. government obligations) or purchase more than 10% of any class of voting securities of any one issuer; or

invest more than 5% of its total assets in warrants.

INVESTMENT SERIES FUNDS, INC. INFORMATION
- ----------

MANAGEMENT OF THE CORPORATION

BOARD OF DIRECTORS. The Corporation is managed by a Board of Directors. The Directors are responsible for managing the business affairs of the Corporation and for exercising all of the Corporation's powers except those reserved for the shareholders. An Executive Committee of the Board of Directors handles the Directors' responsibilities between meetings of the Directors.

INVESTMENT ADVISER. Pursuant to an investment advisory contract with the Corporation, investment decisions for the Fund are made by Federated Advisers, the Fund's investment adviser (the "Adviser"), subject to direction by the Directors. The Adviser continually conducts investment research and supervision for the Fund and is responsible for the purchase or sale of portfolio

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instruments, for which it receives an annual fee from the Fund.

ADVISORY FEES. The Adviser receives an annual investment advisory fee equal to .55 of 1% of the Fund's average daily net assets plus 4.5% of the Fund's annual gross income, excluding any capital gains or losses. Gross income includes, in general, discount earned on U.S. Treasury bills and agency discount notes, interest earned on all interest bearing obligations and dividend income recorded on the ex-dividend date but does not include capital gains or losses or reduction of expenses. The Adviser may voluntarily waive a portion of its fee or reimburse the Fund for certain operating expenses. The Adviser can terminate this voluntary waiver at any time at its sole discretion. The Adviser has also undertaken to reimburse the Fund for operating expenses in excess of limitations established by certain states.

ADVISER'S BACKGROUND. Federated Advisers, a Delaware business trust organized on April 11, 1989, is a registered investment adviser under the Investment Advisers Act of 1940. It is a subsidiary of Federated Investors. All of the Class A (voting) shares of Federated Investors are owned by a trust, the trustees of which are John F. Donahue, Chairman and Trustee of Federated Investors, Mr. Donahue's wife, and Mr. Donahue's son, J. Christopher Donahue, who is President and Trustee of Federated Investors.

Federated Advisers and other subsidiaries of Federated Investors serve as investment advisers to a number of investment companies and private accounts. Certain other subsidiaries also provide administrative services to a number of investment companies. Total assets under management or administration by these and other subsidiaries of Federated Investors are approximately $70 billion. Federated Investors, which was founded in 1956 as Federated Investors, Inc., develops and manages mutual funds primarily for the financial industry. Federated Investors' track record of competitive performance and its disciplined, risk averse investment philosophy serve approximately 3,500 client institutions nationwide. Through these same client institutions, individual shareholders also have access to this same level of investment expertise.

Gregory M. Melvin has been the Fund's portfolio manager since December, 1989. Mr. Melvin joined Federated Investors in 1980 and has been a Vice President of the Fund's investment adviser since 1984. Mr. Melvin is a Chartered Financial Analyst and received his M.B.A. in Finance from Harvard Business School.

DISTRIBUTION OF INVESTMENT SHARES

Federated Securities Corp. is the principal distributor for Shares of the Fund. Federated Securities Corp. is located at Federated Investors Tower, Pittsburgh, Pennsylvania 15222-3779. It is a Pennsylvania corporation organized on November 14, 1969, and is the principal distributor for a number of investment companies. Federated Securities Corp. is a subsidiary of Federated Investors.

ADMINISTRATIVE SERVICE ARRANGEMENTS. The distributor may select brokers and dealers to provide distribution and administrative services. The distributor may also select administrators to provide administrative services. These administrative services include, but are not limited to, distributing prospectuses and other information, providing accounting assistance and communicating or facilitating purchases and redemptions of Shares.

Brokers, dealers, and administrators will receive fees from the distributor based upon Shares owned by their clients or customers. The fees are calculated as a percentage of the average aggregate net asset value of shareholder accounts during the period for which the brokers, dealers, and administrators provide services. Any fees paid for these services by the distributor will be reimbursed by the Adviser.

The Glass-Steagall Act prohibits a depository institution (such as a commercial bank or a savings and loan association) from being an underwriter or distributor of most securities. In the event the Glass-Steagall Act is deemed to prohibit depository institutions from acting in the capacities described above or should Congress relax current restrictions on depository institutions, the Directors will consider appropriate changes in the services.

State securities laws governing the ability of depository institutions to act as underwriters or distributors of securities may differ from interpretations given to the Glass-Steagall Act and, therefore, banks and financial institutions may be required to register as dealers pursuant to state laws.

ADMINISTRATION OF THE FUND

ADMINISTRATIVE SERVICES. Federated Administrative Services, Inc., which is a subsidiary of Federated Investors, provides the Fund with the administrative

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personnel and services necessary to operate the Fund. Such services include shareholder servicing and certain legal and accounting services. Federated Administrative Services, Inc. provides these at approximate cost.

CUSTODIAN. State Street Bank and Trust Company ("State Street Bank"), P.O. Box 8606, Boston, Massachusetts 02266-8606, is custodian for the securities and cash of the Fund.

TRANSFER AGENT AND DIVIDEND DISBURSING AGENT. _Federated Services Company, Pittsburgh, Pennsylvania, is transfer agent for Shares of the Fund, and dividend disbursing agent for the Fund.

LEGAL COUNSEL. Legal counsel is provided by Houston, Houston & Donnelly, 2510 Centre City Tower, Pittsburgh, Pennsylvania 15222, and Dickstein, Shapiro & Morin, 2101 L Street, N.W., Washington, DC 20037.

INDEPENDENT AUDITORS. Independent auditing services are provided by Ernst & Young, Pittsburgh, Pennsylvania 15219.

EXPENSES OF THE FUND AND INVESTMENT SHARES

Holders of each class of shares pay their allocable portion of Fund and Corporation expenses.

The Corporation expenses for which holders of Shares pay their allocable portion include, but are not limited to: the cost of organizing the Corporation and continuing its existence; registering the Corporation with federal and state securities authorities; Directors' fees; auditors' fees; the cost of meetings of Directors; legal fees of the Corporation; association membership dues; and such non-recurring and extraordinary items as may arise from time to time.

The Fund expenses for which holders of Shares each pay their allocable portion include, but are not limited to: registering the Fund and Shares of the Fund; investment advisory services; taxes and commissions; custodian fees; insurance premiums; auditors' fees; and such non-recurring and extraordinary items as may arise from time to time.

In addition, the Directors reserve the right to allocate certain other expenses to holders of Shares as it deems appropriate ("Class Expenses"). In any case, Class Expenses would be limited to: transfer agent fees as identified by the transfer agent as attributable to holders of Shares; printing and postage expenses related to preparing and distributing materials such as shareholder reports, prospectuses and proxies to current shareholders; registration fees paid to the Securities and Exchange Commission and to state securities commissions; expenses related to administrative personnel and services as required to support holders of Shares; legal fees relating solely to Shares; and Directors' fees incurred as a result of issues relating solely to Shares.

BROKERAGE TRANSACTIONS

When selecting brokers and dealers to handle the purchase and sale of portfolio instruments, the Adviser looks for prompt execution of the order at a favorable price. In working with dealers, the Adviser will generally utilize those who are recognized dealers in specific portfolio instruments, except when a better price and execution of the order can be obtained elsewhere. In selecting among firms believed to meet these criteria, the Adviser may give consideration to those firms which have sold or are selling Shares of the Fund and other funds distributed by Federated Securities Corp. The Adviser makes decisions on portfolio transactions and selects brokers and dealers subject to review by the Directors.

NET ASSET VALUE
- ---

The Fund's net asset value per Share fluctuates. The net asset value for Shares is determined by adding the interest of the Investment Shares in the market value of all securities and other assets of the Fund, subtracting the interest of the Investment Shares in the liabilities of the Fund and those attributable to the Investment Shares, and dividing the remainder by the total number of Investment Shares outstanding. The net asset value for Investment Shares may differ from that of Class A Shares and that of Class
C Shares due to the variance in daily net income realized by each respective class. Such variance will reflect only accrued net income to which the shareholders of a particular class are entitled.

INVESTING IN INVESTMENT SHARES
- ---

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SHARE PURCHASES

Shares are sold on days on which the New York Stock Exchange and the Federal Reserve Wire System are open. Shares may be purchased through a financial institution which has a sales agreement with the distributor or directly from the distributor, Federated Securities Corp. In connection with the sale of Shares, Federated Securities Corp. may from time to time offer certain items of nominal value to any shareholder or investor. The Fund reserves the right to reject any purchase request.

THROUGH A FINANCIAL INSTITUTION. An investor may call his financial institution (such as a bank or an investment dealer) to place an order to purchase Shares. Orders through a financial institution are considered received when the Fund is notified of the purchase order. Purchase orders through a registered broker/dealer must be received by the broker before 4:00 P.M. (Eastern time) and must be transmitted by the broker to the Fund before 5:00 P.M. (Eastern time) in order for Shares to be purchased at that day's price. Purchase orders through other financial institutions (such as a registered investment adviser) must be received by the financial institution and transmitted to the Fund before 4:00 P.M. (Eastern time) in order for Shares to be purchased at that day's price. It is the financial institution's responsibility to transmit orders promptly.

DIRECTLY FROM THE DISTRIBUTOR. An investor may place an order to purchase Shares directly from the distributor once an account has been established. To do so:

complete and sign the new account form available from the Fund;

enclose a check made payable to Capital Growth Fund--Investment Shares; and

mail both to Investment Series Funds, Inc., P.O. Box 8606, Boston, Massachusetts 02266-8606.

Orders by mail are considered received after payment by check is converted by State Street Bank into federal funds. This is generally the next business day after State Street Bank receives the check.

To purchase Shares of the Fund directly from the distributor by wire, call the Fund. All information needed will be taken over the telephone, and the order is considered received when State Street Bank receives payment by wire. Federal funds should be wired as follows: State Street Bank and Trust Company, Boston, Massachusetts 02105; Attention: EDGEWIRE; For Credit to: Capital Growth Fund--Investment Shares; Fund Number (this number can be found on the account statement or by contacting the Fund); Group Number or Order Number; Nominee or Institution Name; ABA Number 011000028. Shares cannot be purchased by wire on Columbus Day, Veterans' Day, or Martin Luther King Day.

MINIMUM INVESTMENT REQUIRED

The minimum initial investment in Shares is $500, unless the investment is in a retirement plan, in which case the minimum initial investment is $50. Subsequent investments must be in amounts of at least $100, except for retirement plans which must be in amounts of at least $50.

WHAT SHARES COST

Shares are sold at their net asset value next determined after an order is received, plus a sales charge as follows:

<TABLE>
<CAPTION>

AMOUNT OF TRANSACTION	SALES CHARGE AS A PERCENTAGE OF PUBLIC OFFERING PRICE	SALES CHARGE AS A PERCENTAGE OF NET AMOUNT INVESTED
<S>	<C>	<C>
Less than $10,000	5.75%	6.10%
$10,000 but less than $50,000	4.75%	4.98%
$50,000 but less than $100,000	4.25%	4.43%
$100,000 but less than $250,000	3.75%	3.89%
$250,000 but less than $500,000	3.00%	3.09%
$500,000 or more	1.50%	1.52%

</TABLE>

The net asset value is determined at 4:00 P.M. (Eastern time) or at the close of the New York Stock Exchange, Monday through Friday, except on: (i) days on which there are not sufficient changes in the value of the Fund's portfolio securities that its net asset value might be materially affected; (ii) days during which no

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Shares are tendered for redemption and no orders to purchase Shares are received; and (iii) the following holidays: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

Shareholders in Investment Series Trust on September 1, 1989, individuals investing life insurance proceeds through insurance benefit programs as approved by the Corporation, qualified corporate employee benefit plans as approved by the Corporation and members of affinity groups that have signed administrative agreements with the distributor, are exempt from sales charges.

Additionally, no sales charge is imposed on Shares purchased through a financial institution on behalf of a participant in a MemberBank Services retirement plan or program. However, investors who purchase Shares through a financial institution may be charged service or administrative fees by that institution. When Shares are purchased through financial institutions which charge a service or administrative fee, this prospectus should be read together with any such agreement with regard to the services provided, the fees charged for those services, and any restrictions or limitations imposed.

DEALER CONCESSION. For sales of Shares, a dealer will normally receive the applicable sales charge. Any portion of the sales charge which is not paid to a dealer will be retained by the distributor. However, the distributor may, in its sole discretion, pay certain dealers all or part of the portion of the sales charge it retains. If accepted by the dealer, such additional payments will be predicated upon the amount of Fund shares sold. The sales charge for Shares sold other than through registered broker/dealers will be retained by Federated Securities Corp.

REDUCING THE SALES CHARGE

The sales charge can be reduced on the purchase of Shares through:

- quantity discounts and accumulated purchases;
- a letter of intent;
- using the reinvestment privilege; or
- concurrent purchases.

QUANTITY DISCOUNTS AND ACCUMULATED PURCHASES. As shown in the table above, larger purchases reduce the sales charge paid. The Fund will combine purchases made in all funds in the Investment Family of Funds on the same day by the investor, his spouse, and his children under age 21 when it calculates the sales charge. To receive the sales charge reduction, Federated Securities Corp. must be notified by the institution or shareholder at the time of investment that purchases are being combined.

If an additional purchase of Shares is made, the Fund will consider the previous purchases still invested in the Fund. For example, if a shareholder already owns Shares having a current value at the public offering price of $90,000 and he purchases $10,000 more at the current public offering price, the sales charge on the additional purchase according to the schedule now in effect would be 3.75%, not 4.75%.

To receive the sales charge reduction, Federated Securities Corp. must be notified by the shareholder in writing or by his financial institution at the time the purchase is made that Shares are already owned or that purchases are being combined. The Fund will reduce the sales charge after it confirms the purchases.

LETTER OF INTENT. If a shareholder intends to purchase at least $250,000 of shares of any fund in the Investment Family of Funds over the next 13 months, the sales charge may be reduced by signing a letter of intent to that effect. This letter of intent includes a provision for a sales charge adjustment depending on the amount actually purchased within the 13-month period and a provision for the custodian to hold 5.75% of the total amount intended to be purchased in escrow (in Shares) until such purchase is completed.

The 5.75% held in escrow will, at the expiration of the 13-month period, be applied to the applicable sales charge as designated in the chart above, with the balance of the escrowed Shares being deposited into the shareholder's account.

This letter of intent will not obligate the shareholder to purchase the proposed value of Shares, but if he or she does, each purchase during the period will be

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at the sales charge applicable to the total amount intended to be purchased. This letter may be dated as of a prior date to include any purchases made within the past 90 days toward the dollar fulfillment of the letter of intent. Prior trade prices will not be adjusted.

REINVESTMENT PRIVILEGE. If shares in a fund in the Investment Family of Funds have been redeemed, the shareholder has a one-time right, within 120 days, to reinvest the redemption proceeds at the next-determined net asset value without any sales charge. Federated Securities Corp. must be notified by the shareholder in writing or by his financial institution of the reinvestment in order to eliminate a sales charge. If the shareholder redeems his Shares in the Fund, there may be tax consequences.

CONCURRENT PURCHASES. For purposes of qualifying for a sales charge reduction, a shareholder has the privilege of combining concurrent purchases of two or more funds in the Investment Family of Funds, the purchase price of which includes a sales charge. For example, if a shareholder concurrently invested $30,000 in one of the funds which includes a sales charge, and $70,000 in this Fund, the sales charge would be calculated based on a $100,000 investment.

To receive this sales charge reduction, Federated Securities Corp. must be notified by the shareholder in writing or by his financial institution at the time the concurrent purchases are made. The Fund will reduce the sales charge after it confirms the purchases.

SYSTEMATIC INVESTMENT PROGRAM

Once a Fund account has been opened, shareholders may add to their investment on a regular basis in a minimum amount of $100. Under this program, funds may be automatically withdrawn periodically from the shareholder's checking account and invested in Shares at the net asset value next determined after an order is received by the transfer agent, plus the applicable sales charge. A shareholder may apply for participation in this program through his financial institution.

SUBACCOUNTING SERVICES

Institutions are encouraged to open single master accounts with the Fund and to provide the recordkeeping for their own customers' accounts. Certain institutions, however, may choose to use the Fund's transfer agent for recordkeeping services. The transfer agent charges a fee based on the level of recordkeeping services provided, which may be passed along to the shareholder. The institution may charge other fees which may be related to the ownership of Fund Shares. This prospectus should, therefore, be read together with any agreement, or documents relating thereto, between the customer and the institution with regard to the services provided, the fees charged for those services, and any restrictions and limitations imposed, including minimum investments. In certain instances, the Fund may reimburse brokers or dealers for subaccounting services which they perform.

CERTIFICATES AND CONFIRMATIONS

As transfer agent for the Fund, Federated Services Company maintains a Share account for each shareholder of record. Share certificates are not issued unless requested by the shareholder of record in writing to Federated Services Company.

Detailed confirmations of each purchase or redemption are sent to each shareholder. Quarterly confirmations are sent to report dividends paid during that quarter.

DIVIDENDS AND DISTRIBUTIONS

Dividends are declared and paid quarterly to all shareholders invested in the Fund on the record date. Distributions of any net realized long-term capital gains will be made at least once every twelve months. Unless shareholders request cash payments by writing to the dividend disbursing agent, dividends and distributions are automatically reinvested in additional Shares of the Fund on payment dates at the ex-dividend date net asset value without a sales charge.

RETIREMENT PLANS

Shares of the Fund can be purchased as an investment for retirement plans or for an IRA account. For further details, including prototype retirement plans, contact the Fund and consult a tax adviser.

EXCHANGE PRIVILEGE

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In order to provide greater flexibility to Fund shareholders whose investment objectives have changed, Fund shareholders are permitted to exchange all or some of their Shares for shares in other funds in the Investment Family of Funds (see "Investment Family of Funds"). These exchanges are made at net asset value plus the difference between the Fund's sales charge already paid and any sales charge of the fund into which the Shares are to be exchanged, if higher. Neither the Fund nor any of the funds in the Investment Family of Funds imposes any additional fees on exchanges. The exchange privilege does not apply to certain shares of Money Market Management, Inc. which were acquired in exchange for shares of funds in the Fortress Investment Program, as explained in the prospectus for Money Market Management, Inc.

REDUCED SALES CHARGE

If a shareholder making such an exchange qualifies for a reduction of the sales charge, Federated Securities Corp. must be notified by the shareholder in writing or by his financial institution.

REQUIREMENTS FOR EXCHANGE

Shareholders using this privilege must exchange Shares having a net asset value of at least $500. Before the exchange, the shareholder must receive a prospectus of the fund for which the exchange is being made.

This privilege is available to shareholders who reside in any state in which the fund shares being acquired may be sold. Upon receipt of proper instructions and required supporting documents, Shares submitted for exchange are redeemed and the proceeds invested in shares of the other fund. The exchange privilege may be modified or terminated at any time. Shareholders will be notified of the modification or termination of the exchange privilege.

Further information on the exchange privilege and prospectuses for the Investment Family of Funds are available by contacting the Fund.

TAX CONSEQUENCES

An exercise of the exchange privilege is treated as a sale for federal income tax purposes. Depending upon the circumstances, a short-term or long-term capital gain or loss may be realized.

MAKING AN EXCHANGE

Instructions for exchanges for the Investment Family of Funds may be given in writing or by telephone. Written instructions may require a signature guarantee. Shareholders may have difficulty in making exchanges by telephone through brokers and other financial institutions during times of drastic economic or market changes. If a shareholder cannot contact his broker or financial institution by telephone, it is recommended that an exchange request be made in writing and sent by overnight mail to Boston Financial Data Services, Inc., Attention: Federated Division, P.O. Box 8606, Boston, Massachusetts 02266-8606.

TELEPHONE INSTRUCTIONS. Telephone instructions made by the investor may be carried out only if a telephone authorization form completed by the investor is on file with the transfer agent. If the instructions are given by a broker, a telephone authorization form completed by the broker must be on file with the transfer agent. Shares may be exchanged between two funds by telephone only if the two funds have identical shareholder registrations. Telephone exchange instructions may be recorded. If reasonable procedures are not followed by the Fund, it may be liable for losses due to unauthorized or fraudulent telephone instructions.

Any Shares held in certificate form cannot be exchanged by telephone but must be forwarded to the transfer agent and deposited to the shareholder's account before being exchanged. Telephone exchange instructions may be recorded and will be binding upon the shareholder. Such instructions will be processed as of 4:00 P.M. (Eastern time) and must be received by the transfer agent before that time for Shares to be exchanged the same day. Shareholders exchanging into the Fund will not receive any dividend that is payable to shareholders of record on that date. This privilege may be modified or terminated at any time.

REDEEMING INVESTMENT SHARES

The Fund redeems Shares at their net asset value next determined after the Fund

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receives the redemption request. Redemptions will be made on days on which the Fund computes its net asset value. Redemption requests must be received in proper form.

THROUGH A FINANCIAL INSTITUTION

A shareholder may redeem Shares by calling his financial institution (such as an investment dealer or custodian) to request the redemption. Shares will be redeemed at the net asset value next determined after the Fund receives the redemption request from the financial institution. Redemption requests through a registered broker/dealer must be received by the broker before 4:00 P.M. (Eastern time) and must be transmitted by the broker to the Fund before 5:00 P.M. (Eastern time) in order for Shares to be redeemed at that day's net asset value. Redemption requests through other financial institutions (such as a registered investment adviser or custodian) must be received by the financial institution and transmitted to the Fund before 4:00 P.M. (Eastern time) in order for Shares to be redeemed at that day's net asset value. The financial institution is responsible for promptly submitting redemption requests and providing proper written redemption instructions to the Fund. The financial institution may charge customary fees and commissions for this service.

DIRECTLY FROM THE FUND

BY TELEPHONE. Shareholders may redeem their Shares by telephoning the transfer agent. The proceeds will be mailed to the shareholder's address of record or wire transferred to the shareholder's account at a domestic commercial bank that is a member of the Federal Reserve System, normally within one business day, but in no event longer than seven days, after the request. The minimum amount for a wire transfer is $1,000. If at any time the Fund shall determine it necessary to terminate or modify this method of redemption, shareholders would be promptly notified.

An authorization form permitting the transfer agent to accept telephone requests must first be completed. Authorization forms and information on this service are available from Federated Securities Corp. Telephone redemption instructions may be recorded. If reasonable procedures are not followed by the Fund, it may be liable for losses due to unauthorized or fraudulent telephone instructions.

In addition, a shareholder who has chosen the Invest-by-Phone service may redeem Shares with a net asset value of at least $1,000 and have the proceeds transmitted electronically to a commercial bank that is an Automated Clearing House member generally by the second business day after the redemption request.

In the event of drastic economic or market changes, a shareholder may experience difficulty in redeeming by telephone. If such a case should occur, another method of redemption, such as redeeming by mail, should be considered.

BY MAIL. Shares may also be redeemed by sending a written request to the transfer agent. The written request should include the shareholder's name, the Fund and class of shares' name, the account number, and the Share or dollar amount requested.

If Share certificates have been issued, they must be properly endorsed and should be sent by registered or certified mail with the written request. Shareholders should contact the Fund for assistance in redeeming by mail.

SIGNATURES. Shareholders requesting a redemption of $50,000 or more, a redemption of any amount to be sent to an address other than that on record with the Fund, or a redemption payable other than to the shareholder of record must have signatures on written redemption requests guaranteed by:

a trust company or commercial bank whose deposits are insured by the Bank Insurance Fund ("BIF");

a member of the New York, American, Boston, Midwest or Pacific Stock Exchange;

a savings bank or savings and loan association whose deposits are insured by the Savings Association Insurance Fund ("SAIF"); or

any other "eligible guarantor institution," as defined in the Securities Exchange Act of 1934.

The Fund does not accept signatures guaranteed by a notary public.

The Fund and its transfer agent have adopted standards for accepting signature

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guarantees from the above institutions. The Fund may elect in the future to limit eligible signature guarantors to institutions that are members of a signature guarantee program. The Fund and its transfer agent reserve the right to amend these standards at any time without notice.

RECEIVING PAYMENT. Normally, a check for the proceeds is mailed within one business day, but in no event more than seven days, after receipt of a proper written redemption request.

SYSTEMATIC WITHDRAWAL PROGRAM

If a shareholder's account has a value of at least $10,000, a Systematic Withdrawal Program may be established whereby automatic redemptions are made from the account and transferred electronically to any commercial bank, savings bank, or credit union that is an Automated Clearing House member. Depending upon the amount of the withdrawal payments, the amount of dividends paid and capital gains distributions with respect to Shares, and the fluctuation of the net asset value of Shares redeemed under this program, redemptions may reduce, and eventually deplete, the shareholder's investment in the Shares. For this reason, payments under this program should not be considered as yield or income on the shareholder's investment in Shares. Application forms and further information on this program are available from the Fund. Due to the fact that Shares are sold with a sales charge, it is not advisable for shareholders to be purchasing Shares while participating in this program.

REDEMPTION BEFORE PURCHASE INSTRUMENTS CLEAR

When Shares are purchased by check, the proceeds from the redemption of those Shares are not available, and the Shares may not be exchanged, until the Fund or its agents are reasonably certain that the purchase check has cleared, which could take up to ten calendar days.

ACCOUNTS WITH LOW BALANCES

Due to the high cost of maintaining accounts with low balances, the Fund may redeem Shares in any account, except retirement plans, and pay the proceeds to the shareholder if the account balance falls below the required minimum value of $500. This requirement does not apply, however, if the balance falls below $500 because of changes in the Fund's net asset value.
Before Shares are redeemed to close an account, the shareholder is notified in writing and allowed 30 days to purchase additional Shares to meet the minimum requirement.

SHAREHOLDER INFORMATION

VOTING RIGHTS

Each Share gives the shareholder one vote in Director elections and other matters submitted to shareholders for vote. All shares of each portfolio or class in the Corporation have equal voting rights, except that in matters affecting only a particular Fund or class, only shares of that Fund or class are entitled to vote. As of November 29, 1993, Liberty Bank & Trust, custodian for IRM Retirement Plans, may be deemed to control the Fund due to its record ownership of Investment Shares of the Fund.

As a Maryland corporation, the Corporation is not required to hold annual shareholder meetings. Shareholder approval will be sought only for certain changes in the Fund's operation and for the election of Directors under certain circumstances.

Directors may be removed by a two-thirds vote of the number of Directors prior to such removal or by a two-thirds vote of the shareholders at a special meeting. A special meeting of shareholders shall be called by the Directors upon the written request of shareholders owning at least 10% of the Corporation's outstanding shares entitled to vote.

TAX INFORMATION

FEDERAL INCOME TAX

The Fund will pay no federal income tax because the Fund expects to meet the requirements of the Internal Revenue Code, as amended, applicable to regulated investment companies and to receive the special tax treatment afforded to such companies.

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The Fund will be treated as a single, separate entity for federal income tax purposes so that income (including capital gains) and losses realized by the Corporation's other portfolios, if any, will not be combined for tax purposes with those realized by the Fund.

Unless otherwise exempt, shareholders are required to pay federal income tax on any dividends and other distributions, including capital gains distributions, received. This applies whether dividends and distributions are received in cash or as additional Shares. Distributions representing long-term capital gains, if any, will be taxable to shareholders as long-term capital gains no matter how long the shareholders have held the Shares. No federal income tax is due on any dividends earned in an IRA or qualified retirement plan until distributed.

PENNSYLVANIA CORPORATE AND PERSONAL PROPERTY TAXES

In the opinion of Houston, Houston & Donnelly, counsel to the Corporation:

The Corporation is subject to the Pennsylvania corporate franchise tax; and

Fund Shares are exempt from personal property taxes imposed by counties, municipalities, and school districts in Pennsylvania.

Shareholders are urged to consult their own tax advisers regarding the status of their accounts under state and local tax laws.

PERFORMANCE INFORMATION

From time to time the Fund advertises the total return and yield for Investment Shares.

Total return represents the change, over a specified period of time, in the value of an investment in Investment Shares after reinvesting all income and capital gain distributions. It is calculated by dividing that change by the initial investment and is expressed as a percentage.

The yield of Investment Shares is calculated by dividing the net investment income per Share (as defined by the Securities and Exchange Commission) earned by Investment Shares over a thirty-day period by the maximum offering price per Share on the last day of the period. This number is then annualized using semi-annual compounding. The yield does not necessarily reflect income actually earned by Investment Shares and, therefore, may not correlate to the dividends or other distributions paid to shareholders.

The performance information reflects the effect of the maximum sales load which, if excluded, would increase the total return and yield.

Total return and yield will be calculated separately for Investment Shares, Class A Shares, and Class C Shares. Because both Class A Shares and Class C Shares are subject to different 12b-1 fees, the total return and yield for Investment Shares may exceed that of Class A Shares and of Class C Shares for the same period.

From time to time, the Fund may advertise the performance of Investment Shares using certain reporting services and/or compare the performance of Investment Shares to certain indices.

OTHER CLASSES OF SHARES

Class A Shares are sold with a maximum sales charge of 4.50% and are distributed pursuant to a Rule 12b-1 Plan adopted by the Fund whereby the distributor is paid a fee of up to .25 of 1% of the Class A Shares' average daily net assets. Class A Shares are subject to a minimum initial investment of $500, unless the investment is in a retirement account, in which case the minimum initial investment is $50.

The Fund does not presently offer Class B Shares. Class C Shares are sold primarily to customers of financial institutions at net asset value with no initial sales charge. Class C Shares may be subject to a contingent deferred sales charge of up to 1.00%, as described in the Class C prospectus. Class C Shares are distributed pursuant to a Rule 12b-1 Plan adopted by the Fund whereby the distributor is paid a fee of up to .75 of 1%, in addition to a shareholder services fee of .25 of 1% of the Class C Shares' average daily net assets. Class C Shares are subject to a minimum initial investment of $1,500, unless the

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investment is in a retirement account, in which case the minimum initial investment is $50.

Financial institutions and brokers providing sales and/or administrative services may receive different compensation from one class of shares of the Fund than from another class of shares. While the distributor may, in addition to fees paid pursuant to the Rule 12b-1 Plan, pay an administrative fee to a financial institution or broker for administrative services provided to a class, such a fee will not be an expense of the class, but will be reimbursed to the distributor by the investment adviser.

The amount of dividends payable to holders of Investment Shares will generally exceed that of Class A Shares and of Class C Shares by the difference between Class Expenses borne by shares of each respective class.

The stated advisory fee is the same for all classes of the Fund.

CAPITAL GROWTH FUND
FINANCIAL HIGHLIGHTS--CLASS A SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

Reference is made to Report of Ernst & Young, Independent Auditors, on page 32.

<TABLE>
<CAPTION>

<S>	YEAR ENDED OCTOBER 31, <C> 1993	<C> 1992**
NET ASSET VALUE, BEGINNING OF PERIOD	$ 11.84	$ 12.00
INCOME FROM INVESTMENT OPERATIONS		
Net investment income	0.09	0.11
Net realized and unrealized gain (loss) on investments	1.71	(0.18)
Total from investment operations	1.80	(0.07)
LESS DISTRIBUTIONS		
Dividends to shareholders from net investment income	(0.10)	(0.09)
Distributions to shareholders from net realized gain on investment transactions	(0.16)	--
TOTAL DISTRIBUTIONS	(0.26)	(0.09)
NET ASSET VALUE, END OF PERIOD	$ 13.38	$ 11.84
TOTAL RETURN*	15.34%	-0.61%(b)
RATIOS TO AVERAGE NET ASSETS		
Expenses	1.25%	1.17%(a)
Net investment income	0.73%	1.19%(a)
Expense waiver/reimbursement (c)	2.37%	1.33%(a)
SUPPLEMENTAL DATA		
Net assets, end of period (000 omitted)	$11,609	$6,540
Portfolio turnover rate	74 %	29 %

</TABLE>

* Based on net asset value which does not reflect the sales load or redemption fee, if applicable.

** Reflects operations for the period from January 16, 1992 (date of initial public investment) to October 31, 1992.

(a) Computed on an annualized basis.

(b) Cumulative total return.

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(c) This expense decrease is reflected in both the expense and net investment income ratios shown above (Note 5).

Further information about the Fund's performance is contained in the Fund's annual report for the fiscal year ended October 31, 1993, which can be obtained free of charge.

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
FINANCIAL HIGHLIGHTS--CLASS C SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT THE PERIOD)

Reference is made to Report of Ernst & Young, Independent Auditors, on page 32.

	YEAR ENDED OCTOBER 31, 1993**
	<C>
NET ASSET VALUE, BEGINNING OF PERIOD	$ 12.39
INCOME FROM INVESTMENT OPERATIONS	
Net investment income	(0.01)
Net realized and unrealized gain on investments	0.98
Total from investment operations	0.97
NET ASSET VALUE, END OF PERIOD	$ 13.36
TOTAL RETURN*	7.83%(b)
RATIOS TO AVERAGE NET ASSETS	
Expenses	2.00%(a)
Net investment income	(0.18)%(a)
Expense waiver/reimbursement (c)	2.37%(a)
SUPPLEMENTAL DATA	
Net assets, end of period (000 omitted)	$ 314
Portfolio turnover rate	%74

* Based on net asset value which does not reflect the sales load or contingent deferred sales charge, if applicable.

** Reflects operations from April 13, 1993 (date of initial public investment) to October 31, 1993.

(a) Computed on an annualized basis.

(b) Cumulative total return.

(c) This expense decrease is reflected in both the expense and net investment income ratios shown above (Note 5).

Further information about the Fund's performance is contained in the Fund's annual report for the fiscal year ended October 31, 1993, which can be obtained free of charge.

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
PORTFOLIO OF INVESTMENTS
OCTOBER 31, 1993

SHARES		VALUE
<C>	<S>	<C>

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COMMON STOCKS--79.6%

	AUTOMOTIVE PARTS--3.4%	
40,000	Allen Group, Inc.	$ 900,000
	BANKING & FINANCE--10.0%	
30,000	MBNA Corp.	1,023,750
15,000	NationsBank Corp.	699,375
36,500	AT&T Capital Corp.	953,562
	Total	2,676,687
	BASIC INDUSTRY--6.6%	
20,000	Cleveland-Cliffs, Inc.	720,000
15,000	Harsco Corp.	630,000
15,000	Medusa Corp.	412,500
	Total	1,762,500
	CAPITAL GOODS--17.6%	
35,000	Alliant Techsystems, Inc.**	1,019,375
15,000	Dover Corp.	862,500
30,000	Genlyte Group, Inc.**	112,500
25,000	Greenfield Industries, Inc.	412,500
30,000	Kenetech Corp.**	468,750
25,000	MagneTek, Inc.**	378,125
10,000	Sensormatic Electronics Corp.	465,000
10,000	Stewart & Stevenson Services, Inc.	452,500
25,000	Valence Technology, Inc.**	531,250
	Total	4,702,500
	CONSUMER GOODS--RETAIL--6.8%	
25,000	Blockbuster Entertainment Corp.	709,375
75,000	Service Merchandise, Inc.**	750,000
25,000	Showbiz Pizza Time, Inc.**	$ 362,500
	Total	1,821,875
	CONSUMER PRODUCTS--13.1%	
15,000	Dial Corp.	575,625
75,000	Dr. Pepper/7-Up Holding Co.**	1,565,625
75,000	ADT, Limited**	675,000
10,000	Nike, Inc.	483,750
10,000	Starter Corp.**	202,500
	Total	3,502,500
	ENERGY--2.3%	
25,000	Valero Energy Corp.	628,125
	HEALTH CARE--12.5%	
20,000	Genentech, Inc.**	922,500

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25,000	Genetics Institute, Inc.**	1,062,500
40,000	National Health Laboratories, Inc.	545,000
15,000	Spacelabs Medical, Inc.**	356,250
10,000	U.S. Healthcare, Inc.	463,750
	Total	3,350,000
	INSURANCE--2.0%	
15,000	Travelers Corp.	528,750
	TRANSPORTATION--3.1%	
15,000	American President Companies, Ltd.	832,500
	WASTE DISPOSAL--2.2%	
150,000	Chambers Development, Inc.**	600,000
	TOTAL COMMON STOCKS (IDENTIFIED COST, $17,710,139)	21,305,437

</TABLE>

<TABLE>
<CAPTION>

PRINCIPAL AMOUNT OR SHARES		VALUE
<C>	<S>	<C>
CONVERTIBLE SECURITIES--15.5%		
	CONSUMER PRODUCTS--9.0%	
$ 3,000,000	Coleman Worldwide Corp. LYON's, 5/27/2013	$ 825,000
400,000	Mattel, Inc., Conv. Deb., 8.00%, 3/15/2001	728,000
20,000	Sun America Inc. $2.68 PERCs, 3/15/2001	850,000
	Total	2,403,000
	HEALTH CARE--2.6%	
1,000,000	Roche Holdings Inc. 4.75% LYON, 9/23/2008	523,750
974	Schering-Plough Corp., Warrant Units, 12/2/96**	176,294
	Total	700,044
	TRANSPORTATION--3.9%	
800,000	Greyhound Lines, Inc., Conv. Deb., 8.56%, 3/31/2007	1,048,000
	TOTAL CONVERTIBLE SECURITIES (IDENTIFIED COST, $3,553,444)	4,151,044
*REPURCHASE AGREEMENT--2.6%		
685,000	J.P. Morgan Securities, Inc., 2.99%, dated 10/29/93, due 11/1/93 (at amortized cost) (Note 2B)	685,000
	TOTAL INVESTMENTS (IDENTIFIED COST $21,948,583)	$ 26,141,481\

</TABLE>

* The repurchase agreement is fully collateralized by U.S. government and/or agency obligations based on market prices at the date of the portfolio. The investment in the repurchase agreement is through participation in a joint account with other Federated funds.

** Non-income producing.

\ The cost of investments for federal tax purposes amounts to $21,948,583. The net unrealized appreciation of investments on a federal tax basis amounts to $4,192,898, which is comprised of $5,755,663 appreciation and $1,562,765 depreciation at October 31, 1993.

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($26,758,883) at October 31, 1993.

LYON--Liquid Yield Option Note

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
STATEMENT OF ASSETS AND LIABILITIES
OCTOBER 31, 1993

ASSETS:		
Investments, at value (Notes 2A and 2B) (identified and tax cost, $21,948,583)		$ 26,141,481
Cash		5,998
Receivable for investments sold		528,442
Receivable for capital stock sold		83,104
Dividends and interest receivable		21,836
Deferred expenses (Note 2F)		434
Total assets		26,781,295
LIABILITIES:		
Payable for capital stock redeemed	$ 5,497	
Accrued expenses	16,915	
Total liabilities		22,412
NET ASSETS for 1,999,623 shares of capital stock outstanding		$ 26,758,883
NET ASSETS CONSIST OF:		
Paid-in capital		$ 22,241,370
Net unrealized appreciation of investments		4,192,898
Accumulated undistributed net realized gain on investments		313,497
Undistributed net investment income		11,118
Total		$ 26,758,883
NET ASSET VALUE AND REDEMPTION PRICE Per Share:		
Investment Shares (net assets of $14,836,418 / 1,108,550 SHARES OF CAPITAL STOCK OUTSTANDING)		$13.38
CLASS A SHARES (NET ASSETS OF $11,608,735 / 867,599 SHARES OF CAPITAL STOCK OUTSTANDING)		$13.38
CLASS C SHARES (NET ASSETS OF $313,730 / 23,474 SHARES OF CAPITAL STOCK OUTSTANDING)		$13.36
COMPUTATION OF OFFERING PRICE:		
Investment Shares Offering Price Per Share (100/94.25 of $13.38)*		$14.20
Class A Shares Offering Price Per Share (100/95.50 of $13.38)*		$14.01

* On sales of $10,000 or more, the offering price is reduced as stated under "What Shares Cost" in the prospectus.

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
STATEMENT OF OPERATIONS
YEAR ENDED OCTOBER 31, 1993

INVESTMENT INCOME:			

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Dividends			$ 285,993
Interest			225,715
Total investment income (Note 2C)			511,708
EXPENSES:			
Investment advisory fee (Note 5)		$ 165,261	
Directors fees		5,265	
Administrative personnel and services (Note 5)		240,157	
Custodian, transfer and dividend disbursing agent fees and expenses		192,808	
Fund share registration costs		111,451	
Auditing fees		18,067	
Legal fees		14,841	
Distribution services fees (Note 5)		26,209	
Printing and postage		112,187	
Insurance premiums		7,662	
Taxes		480	
Miscellaneous		2,548	
Total expenses		896,936	
Deduct--			
Waiver of investment advisory fee (Note 5)	$ 165,261		
Reimbursement of other operating expenses (Note 5)	446,749	612,010	
Net expenses			284,926
Net investment income			226,782
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:			
Net realized gain on investment transactions (identified cost basis)			303,564
Net change in unrealized appreciation on investments			3,026,413
Net realized and unrealized gain on investments			3,329,977
Change in net assets resulting from operations			$ 3,556,759

</TABLE>

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
STATEMENT OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

<S>	YEAR ENDED OCTOBER 31, <C> 1993	<C> 1992*
INCREASE (DECREASE) IN NET ASSETS:		
OPERATIONS--		
Net investment income	$ 226,782	$ 205,334
Net realized gain on investment transactions ($303,564 and $340,685 net gain, respectively, as computed for federal income tax purposes)	303,564	293,810
Change in unrealized appreciation (depreciation) of investments	3,026,413	(932,519)
Change in net assets resulting from operations	3,556,759	(433,375)
DISTRIBUTIONS TO SHAREHOLDERS (NOTE 3)--		

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Dividends to shareholders from net investment income:		
Investment Shares	(174,344)	(132,621)
Class A Shares	(76,306)	(27,448)
Dividends to shareholders from net realized gain on investment transactions:		
Investment Shares	(245,773)	--
Class A Shares	(95,185)	--
Change in net assets from distributions to shareholders	(591,608)	(160,069)
FUND SHARE (PRINCIPAL) TRANSACTIONS (NOTE 4)--		
Proceeds from sale of shares	11,839,537	13,308,632
Net asset value of shares issued to shareholders electing to receive payment of dividends in Fund shares	531,548	150,206
Cost of shares redeemed	(13,278,176)	(1,677,459)
Change in net assets from Fund share transactions	(907,091)	11,781,379
Change in net assets	2,058,060	11,187,935
NET ASSETS:		
Beginning of period	24,700,823	13,512,888
End of period (including undistributed net investment income of $11,118 and $34,986, respectively)	$ 26,758,883	$ 24,700,823

</TABLE>

* Ten months ended October 31, 1992.

(See Notes which are an integral part of the financial statements)

CAPITAL GROWTH FUND
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 1993

(1) ORGANIZATION

Investment Series Funds, Inc. (the "Corporation") is registered under the Investment Company Act of 1940, as amended, as a diversified, open-end, management investment company with two portfolios. The financial statements included herein present only those of Capital Growth Fund (the "Fund"). The financial statements of the other portfolios are presented separately. The assets of each portfolio are segregated and a shareholder's interest is limited to the portfolio in which shares are held.

Capital Growth Fund provides three classes of Shares ("Investment Shares, " "Class A Shares" and "Class C Shares"). Class A Shares and Class C Shares are identical in all respects to Investment Shares except that: (i) Class A Shares and Class C Shares are sold pursuant to a distribution plan ("Plan") adopted in accordance with the Investment Company Act of 1940 Rule 12b-1. Class A Shares are subject to a maximum sales load of 4.50%, a 12b-1 fee of 0.25% and may be subject to a redemption fee but are not subject to a shareholder servicing fee. Class C Shares are not subject to a sales load but are subject to a 12b-1 fee of 0.75%, a shareholder servicing fee of 0.25%, and a contingent deferred sales charge of 1.00%.

On December 18, 1992, Shareholders of the Fund met and approved the reorganization of the Fund as a portfolio of Investment Series Funds, Inc., a Maryland Corporation.

(2) SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principals.

A. INVESTMENT VALUATIONS--Listed equity securities are valued at last sale prices reported on national securities exchanges. Unlisted securities or listed securities for which there were no sales on the valuation date are generally valued at the mean between bid and asked prices. Short-term obligations are valued at the mean between bid and asked prices furnished by an independent pricing service. However, short-term obligations with

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maturities of sixty days or less are valued at amortized cost, which approximates value.

B. REPURCHASE AGREEMENTS--It is the policy of the Fund to require the custodian bank to take possession, to have legally segregated in the Federal Reserve Book Entry System or to have segregated within the custodian bank's vault, all securities held as collateral in support of repurchase and reverse repurchase agreement investments. Additionally, procedures have been established by the Fund to monitor, on a daily basis, the market value of each repurchase agreement's underlying collateral to ensure the value at least equals the principal amount of the repurchase transactions, including accrued interest.

The Fund is also permitted to enter into reverse repurchase agreements, in which the Fund sells U.S. government securities to financial institutions and agrees to repurchase the securities at an agreed upon price and date.

The Fund will only enter into repurchase and reverse repurchase agreements with banks and other recognized financial institutions such as broker/dealers which are deemed by the Fund's adviser to be creditworthy pursuant to guidelines established by the Directors. Risks may arise from the potential inability of counterparties to honor the terms of a repurchase agreements. Accordingly, the Fund could receive less than the repurchase price on the sale of collateral securities.

C. INCOME--Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis and includes discount earned, less any premium.

D. FEDERAL TAXES--It is the Fund's policy to comply with the provisions of the Internal Revenue Code, applicable to regulated investment companies and to distribute to shareholders each year substantially all of its taxable income, including any net realized gain on investments. Accordingly, no provision for federal tax is necessary.

E. WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS--The Fund may engage in when-issued or delayed delivery transactions. The Fund records when-issued securities and maintains security positions such that sufficient liquid assets will be available to make payment for the securities purchased. Securities purchased on a when-issued or delayed delivery basis are marked to market daily and begin earning interest on the settlement date.

F. DEFERRED EXPENSES--Costs incurred by the Fund with respect to registration of its shares in its first fiscal year, excluding the initial expense of registering the shares, have been deferred and are being amortized using the straight-line method over a period of five years from the Funds commencement date.

G. OTHER--Investment transactions are accounted for on the date of the transaction.

(3) DIVIDENDS AND DISTRIBUTIONS

Dividends from net investment income are declared and paid quarterly. Distributions of any net realized capital gains will be made at least once every twelve months. Dividends and capital gain distributions, if any, are recorded on the ex-dividend date.

(4) CAPITAL STOCK

At October 31, 1993, there were 1,000,000,000 of ($.0001) par value capital stock authorized. Transactions in capital stock were as follows:

<TABLE>
<CAPTION>

	YEAR ENDED 10/31/93		YEAR ENDED 10/31/92*	
<S>	<C>	<C>	<C>	<C>
INVESTMENT SHARES	SHARES	AMOUNT	SHARES	AMOUNT
Shares outstanding, beginning of period	1,533,399	$ 16,319,992	1,125,747	$ 11,367,082
Shares sold	341,272	4,316,048	484,535	5,894,279
Shares issued to shareholders electing to receive payment of dividends in Fund shares	30,603	380,718	10,536	129,297
Shares redeemed	(796,724)	(9,811,729)	(87,419)	(1,070,666)
Shares outstanding, end of period	1,108,550	$ 11,205,029	1,533,399	$ 16,319,992

</TABLE>

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<TABLE>
<CAPTION>

<S>	YEAR ENDED 10/31/93		YEAR ENDED 10/31/92*	
CLASS A SHARES	<C> SHARES	<C> AMOUNT	<C> SHARES	<C> AMOUNT
Shares outstanding, beginning of period	552,251	$ 6,828,469	--	$ --
Shares sold	575,342	7,204,386	599,919	7,414,353
Shares issued to shareholders electing to receive payment of dividends in Fund shares	12,091	150,830	1,714	20,909
Shares redeemed	(272,085)	(3,450,895)	(49,382)	(606,793)
Shares outstanding, end of period	867,599	$ 10,732,790	552,251	$ 6,828,469

</TABLE>

*_For the ten months ended October 31, 1992.

<TABLE>
<CAPTION>

<S>	YEAR ENDED 10/31/93**			
CLASS C SHARES	<C> SHARES	<C> AMOUNT	<C>	<C>
Shares outstanding, beginning of period	--	$ --		
Shares sold	24,661	319,103		
Shares issued to shareholders electing to receive payment of dividends in Fund shares	--	--		
Shares redeemed	(1,187)	(15,552)		
Shares outstanding, end of period	23,474	$ 303,551		

</TABLE>

**_For the period from April 13, 1993 (date of initial public investment) to October 31, 1993.

(5) INVESTMENT ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

Federated Advisers (the "Adviser"), the Fund's investment adviser, receives for its services an annual investment advisory fee equal to (a) 0.55% of the average daily net assets of the Fund, and (b) 4.5% of the gross income of the Fund. The Adviser has voluntarily agreed to waive a portion or all of its fee and reimburse the Fund a portion of its annual operating expenses. The Adviser can terminate this voluntary waiver and reimbursement at any time at its sole discretion. For the period ended October 31, 1993, the investment advisory fee amounted to $165,261, all of which was voluntarily waived. In addition, the Adviser voluntarily reimbursed $446,749 of the Fund's other operating expenses.

Organization expenses ($13,190) and start-up administrative service expenses ($92,451) were borne initially by the Adviser. The Fund has agreed to pay the Adviser, at an annual rate of .005 of 1% of average daily net assets and .01 of 1% of average daily net assets for organization expenses and start-up administrative service expenses, respectively, until expenses borne by the Adviser are reimbursed. This commitment will expire five years from the date the Corporation's portfolio became effective. For the period ended October 31, 1993, the Fund paid the Adviser $736 for organization expenses and $1,471 for start-up administrative services pursuant to this agreement.

Administrative personnel and services were provided at approximate cost by Federated Administrative Services, Inc. Certain of the Officers and Directors of the Fund are Officers and Directors of the above corporations.

The Fund has adopted a Distribution Plan pursuant to Rule 12b-1 under the Investment Company Act of 1940. The Fund will reimburse Federated Securities Corp., the principal distributor, from the assets of the Class A and Class C Shares of the Fund, for fees it paid which relate to the distribution and administration of the Fund's Class A and Classs C Shares. The Plan provides that the Fund may incur distribution expenses of up to 0.25 of 1% for Class A Shares and 0.75 of 1% of Class C Shares of the average daily net assets, annually, to pay commissions, maintenance fees, and to compensate FSC. For the period ended October 31, 1993, FSC earned $25,677 and $532 for Class A and Class C Shares, respectively.

(6) INVESTMENT TRANSACTIONS

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Purchases, and sales of investments, excluding short-term securities for the fiscal year ended October 31, 1993, were as follows:

PURCHASES	$ 18,804,799
SALES AND MATURITIES	$ 20,808,325

REPORT OF ERNST & YOUNG, INDEPENDENT AUDITORS

The Directors and Shareholders of
INVESTMENT SERIES FUNDS, INC.

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of Capital Growth Fund (one of the portfolios comprising the Investment Series Funds, Inc.), as of October 31, 1993, and the related statement of operations for the year then ended, the statement of changes in net assets for the year ended October 31, 1993 and for the ten months ended October 31, 1992 and the financial highlights (see pages 2, 20 and 21 of this prospectus) for the periods presented. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to gain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 1993, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Capital Growth Fund of Investment Series Funds, Inc. at October 31, 1993, the results of its operations for the year then ended, the changes in its net assets for the year ended October 31, 1993 and for the ten months ended October 31, 1992, and the financial highlights for the periods presented, in conformity with generally accepted accounting principles.

ERNST & YOUNG

Pittsburgh, Pennsylvania
December 10, 1993

ADDRESSES

Investment Series Funds, Inc.	Capital Growth Fund Investment Shares	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Distributor	Federated Securities Corp.	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Investment Adviser	Federated Advisers	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Custodian	State Street Bank and Trust Company	P.O. Box 8606 Boston, Massachusetts 02266-8606
Transfer Agent and Dividend Disbursing Agent	Federated Services Company	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779

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Legal Counsel		
	Houston, Houston & Donnelly	2510 Centre City Tower Pittsburgh, Pennsylvania 15222
Legal Counsel		
	Dickstein, Shapiro & Morin	2101 L Street, N.W. Washington, D.C. 20037
Independent Auditors		
	Ernst & Young	One Oxford Centre Pittsburgh, Pennsylvania 15219

</TABLE>

CAPITAL GROWTH FUND
INVESTMENT SHARES
PROSPECTUS

A Diversified Portfolio of
Investment Series Funds, Inc.,
an Open-End,
Management Investment Company

December 31, 1993

FEDERATED SECURITIES CORP.
[LOGO]
DISTRIBUTOR
A Subsidiary of Federated Investors
Federated Investors Tower
Pittsburgh, PA 15222-3779

1102503A-R (12/93)

CAPITAL GROWTH FUND
(A PORTFOLIO OF INVESTMENT SERIES FUNDS, INC.)
INVESTMENT SHARES
CLASS A SHARES
CLASS C SHARES
COMBINED STATEMENT OF ADDITIONAL INFORMATION

This Combined Statement of Additional Information should be read with the respective prospectuses of the Investment Shares, Class A Shares (formerly, Liberty Shares), and Class C Shares of Capital Growth Fund (the "Fund") dated December 31, 1993. This Statement is not a prospectus itself. To receive a copy of any of the prospectuses, write or call the Fund.

FEDERATED INVESTORS TOWER
PITTSBURGH, PENNSYLVANIA 15222-3779

Statement dated December 31, 1993

[LOGO] FEDERATED SECURITIES CORP.
Distributor
A subsidiary of FEDERATED INVESTORS

TABLE OF CONTENTS

GENERAL INFORMATION ABOUT THE FUND 1

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INVESTMENT OBJECTIVE AND POLICIES 1

Types of Investments 1
Restricted and Illiquid Securities 2
When-Issued and Delayed Delivery Transactions 2
Lending of Portfolio Securities 2
Repurchase Agreements 3
Reverse Repurchase Agreements 3
Portfolio Turnover 3
Investment Limitations 3

MANAGEMENT OF THE CORPORATION 6

Officers and Directors 6
The Funds 8
Fund Ownership 8

INVESTMENT ADVISORY SERVICES 8

Adviser to the Fund 8
Advisory Fees 9
Administrative Services Arrangements 9

ADMINISTRATIVE SERVICES 9

BROKERAGE TRANSACTIONS 9

PURCHASING SHARES 10

Distribution Plan (Class A Shares and Class C Shares) 10
Purchases by Sales Representatives, Directors, and Employees 10
Conversion to Federal Funds 10

DETERMINING NET ASSET VALUE 11

Determining Market Value of Securities 11

REDEEMING SHARES 11

TAX STATUS 11

The Fund's Tax Status 11
Shareholders' Tax Status 11

TOTAL RETURN 11

YIELD 12

PERFORMANCE COMPARISONS 12

APPENDIX 14

GENERAL INFORMATION ABOUT THE FUND

The Fund is a portfolio of Investment Series Funds, Inc. (the "Corporation"). The Fund was established as a portfolio of Investment Series Trust, a Massachusetts business trust, on March 17, 1987, and, on December 18, 1992, reorganized as a portfolio of the Corporation organized under the laws of the State of Maryland. It is qualified to do business as a foreign corporation in Pennsylvania.

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Shares of the Fund are offered in three classes, Investment Shares, Class A Shares (formerly, Liberty Shares), and Class C Shares (individually and collectively referred to as "Shares," as the context may require). This combined statement of additional information relates to the above-mentioned Shares.

INVESTMENT OBJECTIVE AND POLICIES

The Fund's investment objective is appreciation of capital. The Fund pursues this investment objective by investing primarily in equity securities of companies with prospects for above-average growth in earnings and dividends or of companies where significant fundamental changes are taking place. The investment objective cannot be changed without approval of shareholders.

TYPES OF INVESTMENTS

The Fund may invest in common stocks, preferred stocks, corporate bonds, debentures, notes, warrants, and put options on stocks. The Fund may also invest in short-term money market instruments, U.S. government securities, and hold cash in such proportions as the Fund's investment adviser may determine.

CORPORATE DEBT SECURITIES

Corporate debt securities may bear fixed, fixed and contingent, or variable rates of interest. They may involve equity features such as conversion or exchange rights, warrants for the acquisition of common stock of the same or a different issuer, participations based on revenues, sales, or profits, or the purchase of common stock in a unit transaction (where corporate debt securities and common stock are offered as a unit).

PUT AND CALL OPTIONS

The Fund may purchase listed put options on stocks or write covered call options to protect against price movements in particular securities in its portfolio and generate income. A put option gives the Fund, in return for a premium, the right to sell the underlying security to the writer (seller) at a specified price during the term of the option. As writer of a call option, the Fund has the obligation upon exercise of the option during the option period to deliver the underlying security upon payment of the exercise price.

The Fund may only: (1) buy put options which are listed on a recognized options exchange and which are on securities held in its portfolio; and (2) sell listed call options either on securities held in its portfolio or on securities which it has the right to obtain without payment of further consideration (or has segregated cash in the amount of any such additional consideration). The Fund will maintain its positions in securities, option rights, and segregated cash subject to puts and calls until the options are exercised, closed, or expire.

An option position may be closed out only on an exchange which provides a secondary market for an option of the same series. Although the investment adviser will consider liquidity before entering into option transactions, there is no assurance that a liquid secondary market on an exchange will exist for any particular option or at any particular time.

The Fund reserves the right to hedge the portfolio by buying financial futures and put options on stock index futures and financial futures. However, the Fund will not engage in these transactions until (1) an amendment to its Registration Statement is filed with the Securities and Exchange Commission and becomes effective and (2) ten days after a supplement to the prospectus disclosing this change in policy has been mailed to the shareholders.

MONEY MARKET INSTRUMENTS

The Fund may invest in the following money market instruments:

- instruments of domestic and foreign banks and savings and loans if they have capital, surplus, and undivided profits of over $100,000,000, or if the principal amount of the instrument is insured in full by the Federal Deposit Insurance Corporation; and

- prime commercial paper (rated A-1 by Standard and Poor's Corporation, Prime-1 by Moody's Investors Service, Inc., or F-1 by Fitch Investors Service, Inc.).

U.S. GOVERNMENT SECURITIES

The types of U.S. government securities in which the Fund may invest

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generally include direct securities of the U.S. Treasury (such as U.S. Treasury bills, notes, and bonds) and securities issued or guaranteed by U.S. government agencies or instrumentalities. These securities are backed by:

- the full faith and credit of the U.S. Treasury;
- the issuer's right to borrow from the U.S. Treasury;
- the discretionary authority of the U.S. government to purchase certain securities of agencies or instrumentalities; or
- the credit of the agency or instrumentality issuing the securities.

Examples of agencies and instrumentalities which may not always receive financial support from the U.S. government are:

- Federal Farm Credit Banks;
- Federal Home Loan Banks;
- Federal National Mortgage Association;
- Student Loan Marketing Association; and
- Federal Home Loan Mortgage Corporation.

RESTRICTED AND ILLIQUID SECURITIES

The ability of the Board of Directors ("Directors") to determine the liquidity of certain restricted securities is permitted under a Securities and Exchange Commission staff position set forth in the adopting release for Rule 144A under the Securities Act of 1933 (the "Rule"). The Rule is a non-exclusive, safe-harbor for certain secondary market transactions involving securities subject to restrictions on resale under federal securities laws. The Rule provides an exemption from registration for resales of otherwise restricted securities to qualified institutional buyers. The Rule was expected to further enhance the liquidity of the secondary market for securities eligible for resale under Rule 144A. The Fund believes that the staff of the Securities and Exchange Commission has left the question of determining the liquidity of all restricted securities (eligible for resale under Rule 144A) to the Directors. The Directors consider the following criteria in determining the liquidity of certain restricted securities:

- the frequency of trades and quotes for the security;
- the number of dealers willing to purchase or sell the security and the number of other potential buyers;
- dealer undertakings to make a market in the security; and
- the nature of the security and the nature of the marketplace trades.

WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS

These transactions are arrangements in which the Fund purchases or sells securities with payment and delivery scheduled for a future time. The Fund engages in when-issued and delayed delivery transactions only for the purpose of acquiring portfolio securities consistent with the Fund's investment objective and policies, and not for investment leverage.

These transactions are made to secure what is considered to be an advantageous price and yield for the Fund. Settlement dates may be a month or more after entering into these transactions, and the market values of the securities purchased may vary from the purchase prices.

No fees or other expenses, other than normal transaction costs, are incurred. However, liquid assets of the Fund sufficient to make payment for the securities to be purchased are segregated at the trade date. These assets are marked to market daily and are maintained until the transaction is settled. The Fund may engage in these transactions to an extent that would cause the segregation of an amount up to 20% of the total value of its assets.

LENDING OF PORTFOLIO SECURITIES

The collateral received when the Fund lends portfolio securities must be valued daily and, should the market value of the loaned securities increase, the borrower must furnish additional collateral to the Fund. During the time portfolio securities are on loan, the borrower pays the Fund any dividends or interest paid on such securities. Loans are subject to termination at the option of the Fund or the borrower. The Fund may pay reasonable administrative and

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custodial fees in connection with a loan and may pay a negotiated portion of the interest earned on the cash or equivalent collateral to the borrower or placing broker. The Fund does not have the right to vote securities on loan, but would terminate the loan and regain the right to vote if that were considered important with respect to the investment.

REPURCHASE AGREEMENTS

The Fund requires its custodian to take possession of the securities subject to repurchase agreements, and these securities are marked to market daily. To the extent that the original seller does not repurchase the securities from the Fund, the Fund could receive less than the repurchase price on any sale of such securities. In the event that such a defaulting seller filed for bankruptcy or became insolvent, disposition of such securities by the Fund might be delayed pending court action. The Fund believes that under the regular procedures normally in effect for custody of the Fund's portfolio securities subject to repurchase agreements, a court of competent jurisdiction would rule in favor of the Fund and allow retention or disposition of such securities. The Fund will only enter into repurchase agreements with banks and other recognized financial institutions, such as broker/dealers, which are deemed by the Fund's adviser to be creditworthy pursuant to guidelines established by the Directors.

REVERSE REPURCHASE AGREEMENTS

The Fund may also enter into reverse repurchase agreements. This transaction is similar to borrowing cash. In a reverse repurchase agreement the Fund transfers possession of a portfolio instrument to another person, such as a financial institution, broker, or dealer, in return for a percentage of the instrument's market value in cash, and agrees that on a stipulated date in the future the Fund will repurchase the portfolio instrument by remitting the original consideration plus interest at an agreed upon rate. The use of reverse repurchase agreements may enable the Fund to avoid selling portfolio instruments at a time when a sale may be deemed to be disadvantageous, but the ability to enter into reverse repurchase agreements does not ensure that the Fund will be able to avoid selling portfolio instruments at a disadvantageous time.

When effecting reverse repurchase agreements, liquid assets of the Fund, in a dollar amount sufficient to make payment for the obligations to be purchased, are segregated at the trade date. These assets are marked to market daily and are maintained until the transaction is settled.

PORTFOLIO TURNOVER

The Fund will not attempt to set or meet a portfolio turnover rate since any turnover would be incidental to transactions undertaken in an attempt to achieve the Fund's investment objective. For the fiscal year ended October 31, 1993, the period ended October 31, 1992, and the fiscal year ended December 31, 1991 (prior to reorganization of the Fund as a portfolio of the Corporation), the portfolio turnover rates were 74%, 29%, and 57%, respectively.

INVESTMENT LIMITATIONS

BUYING ON MARGIN

The Fund will not purchase any securities on margin but may obtain such short-term credits as may be necessary for clearance of transactions and may make margin payments in connection with buying financial futures, put options on stock index futures, and put options on financial futures.

SELLING SHORT

The Fund will not sell securities short unless:

during the time the short position is open, it owns an equal amount of the securities sold or securities convertible into or exchangeable, without payment of additional consideration, for securities of the same issuer as, and equal in amount to, the securities sold short; and

not more than 10% of the Fund's net assets (taken at current value) is held as collateral for such sales at any one time.

ISSUING SENIOR SECURITIES AND BORROWING MONEY

The Fund will not issue senior securities, except as permitted by its investment objective and policies, and except that the Fund may borrow money and engage in reverse repurchase agreements only in amounts up to one-third of the value of its net assets, including the amounts borrowed.

The Fund will not borrow money or engage in reverse repurchase agreements

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for investment leverage, but rather as a temporary, extraordinary, or emergency measure to facilitate management of the portfolio by enabling the Fund to meet redemption requests where the liquidation of portfolio securities is deemed to be inconvenient or disadvantageous. The Fund will not purchase any securities while borrowing in excess of 5% of its total assets are outstanding.

PLEDGING ASSETS

The Fund will not mortgage, pledge, or hypothecate any assets except to secure permitted borrowings. In those cases, it may pledge assets having a market value not exceeding the lesser of the dollar amounts borrowed or 10% of the value of total assets at the time of the borrowing.

UNDERWRITING

The Fund will not underwrite any issue of securities, except as it may be deemed to be an underwriter under the Securities Act of 1933 in connection with the sale of securities in accordance with its investment objective, policies, and limitations.

INVESTING IN COMMODITIES

The Fund will not purchase or sell commodities. The Fund reserves the right to hedge the portfolio by purchasing financial futures and put options on stock index futures and on financial futures.

INVESTING IN REAL ESTATE

The Fund will not purchase or sell real estate, including limited partnership interests in real estate, except it may invest in the securities of companies whose business involves the purchase or sale of real estate, or in securities which are secured by real estate or interests in real estate.

LENDING CASH OR SECURITIES

The Fund will not lend any of its assets except portfolio securities. This shall not prevent the purchase or holding of corporate or government bonds, debentures, notes, certificates of indebtedness or other debt securities of an issuer, repurchase agreements, or other transactions which are permitted by the Fund's investment objective and policies or its Articles of Incorporation.

DIVERSIFICATION OF INVESTMENTS

The Fund will not purchase the securities of any issuer (other than the U.S. government, its agencies, or instrumentalities or instruments secured by securities of such issuers, such as repurchase agreements) if, as a result, more than 5% of the value of its total assets would be invested in the securities of such issuer or acquire more than 10% of any class of voting securities of any issuer. For these purposes, the Fund takes all common stock and all preferred stock of an issuer each as a single class, regardless of priorities, series, designations, or other differences.

CONCENTRATION OF INVESTMENTS

The Fund will not purchase securities if, as a result of such purchase, 25% or more of the value of its total assets would be invested in any one industry.

However, the Fund may at times invest 25% or more of the value of its total assets in cash or cash items (for purposes of this limitation the Fund considers instruments issued by a U.S. branch of a domestic bank or savings and loan having capital, surplus, and undivided profits in excess of $100,000,000 at the time of investment to be cash items), or securities issued or guaranteed by the U.S. government, its agencies, or instrumentalities, or repurchase agreements secured by such instruments.

INVESTING IN SECURITIES OF OTHER INVESTMENT COMPANIES

The Fund will limit its investment in other investment companies to not more than 3% of the total outstanding voting stock of any investment company, will invest no more than 5% of its total assets in any one investment company, and will invest no more than 10% of its total assets in investment companies in general. In order to comply with certain state restrictions, the Fund will limit its investment in securities of other investment companies to those with sales loads of less than 1.00% of the offering price of such securities. The Fund will purchase securities of

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closed-end investment companies only in open market transactions involving any customary brokers' commissions. However, these limitations are not applicable if the securities are acquired in a merger, consolidation, reorganization, or acquisition of assets. While it is a policy to waive advisory fees on Fund assets invested in securities of other open-end investment companies, it should be noted that investment companies incur certain expenses such as custodian and transfer agency fees and, therefore, any investment by the Fund in shares of another investment company would be subject to such duplicate expenses.

To comply with investment restrictions of certain states, the Fund will limit its investment in restricted securities to 5% of its total assets.

The above investment limitations cannot be changed without shareholder approval. The following limitations, however, may be changed by the Directors without shareholder approval. Shareholders will be notified before any material change in these limitations becomes effective.

INVESTING IN MINERALS

The Fund will not purchase interests in oil, gas, or other mineral exploration or development programs, or leases, although it may purchase the securities of issuers which invest in or sponsor such programs.

INVESTING IN NEW ISSUERS

The Fund will not invest more than 5% of the value of its total assets in securities of companies, including their predecessors, that have been in operation for less than three years.

INVESTING IN ISSUERS WHOSE SECURITIES ARE OWNED BY OFFICERS AND DIRECTORS OF THE CORPORATION

The Fund will not purchase or retain the securities of any issuer if the officers and Directors of the Corporation or its investment adviser owning individually more than 1/2 of 1% of the issuer's securities together own more than 5% of the issuer's securities.

ACQUIRING SECURITIES

The Fund will not purchase securities of a company for the purpose of exercising control or management. However, the Fund may invest in up to 10% of the voting securities of any one issuer and may exercise its voting powers consistent with the best interests of the Fund. In addition, the Fund, other companies advised by the Fund's investment adviser, and other affiliated companies may together buy and hold substantial amounts of voting stock of a company and may vote together in regard to such company's affairs. In some such cases, the Fund and its affiliates might collectively be considered to be in control of such company. In some cases, Directors and other persons associated with the Fund and its affiliates might possibly become directors of companies in which the Fund holds stock.

PURCHASING PUT OPTIONS

The Fund will not purchase put options on securities unless the securities are held in the Fund's portfolio and not more than 5% of the value of the Fund's total assets would be invested in premiums on open put options.

WRITING COVERED CALL OPTIONS

The Fund will not write call options on securities unless the securities are held in the Fund's portfolio or unless the Fund is entitled to them in deliverable form without further payment or after segregating cash in the amount of any further payment.

INVESTING IN WARRANTS

The Fund will not invest more than 5% of the value of its total assets in warrants. No more than 2% of this 5% may be warrants which are not listed on the New York or American Stock Exchange. Warrants acquired in units or attached to securities may be deemed to be without value for purposes of this policy.

INVESTING IN ILLIQUID SECURITIES

The Fund will not invest more than 15% of the value of its net assets in illiquid securities, including certain restricted securities not determined by the Directors to be liquid, and repurchase agreements

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providing for settlement in more than seven days after notice.

INVESTING IN RESTRICTED SECURITIES

The Fund will not purchase restricted securities if immediately thereafter more than 15% of the net assets of the Fund, taken at market value, would be invested in such securities (except for commercial paper issued under Section 4(2) of the Securities Act of 1933). To comply with certain state requirements, the Fund will limit its investment in restricted securities to 5% of its total assets. (If state requirements change, this limitation may be revised without notice to shareholders.)

Except with respect to borrowing money, if a percentage limitation is adhered to at the time of investment, a later increase or decrease in percentage resulting from any change in value or net assets will not result in a violation of such restriction.

The Fund does not expect to borrow money, sell securities short, invest in reverse repurchase agreements, or invest in put and call options in excess of 5% of the value of its total assets during the current fiscal year.

MANAGEMENT OF THE CORPORATION
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OFFICERS AND DIRECTORS

Officers and Directors are listed with their addresses, principal occupations, and present positions, including any affiliation with Federated Advisers, Federated Investors, Federated Securities Corp., Federated Administrative Services, Inc., and the Funds as described below.

<TABLE>
<CAPTION>

NAME AND ADDRESS	POSITIONS WITH THE CORPORATION	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS
<S>	<C>	<C>
John F. Donahue* Federated Investors Tower Pittsburgh, PA	Chairman and Director	Chairman and Trustee, Federated Investors; Chairman and Trustee, Federated Advisers, Federated Management, and Federated Research; Director, AEtna Life and Casualty Company; Chief Executive Officer and Director, Trustee, or Managing General Partner of the Funds; formerly, Director, The Standard Fire Insurance Company. Mr. Donahue is the father of J. Christopher Donahue, President and Director of the Corporation.
John T. Conroy, Jr. Wood/IPC Commercial Department John R. Wood and Associates, Inc., Realtors 3255 Tamiami Trail North Naples, FL	Director	President, Investment Properties Corporation; Senior Vice-President, John R. Wood and Associates, Inc., Realtors; President, Northgate Village Development Corporation; General Partner or Trustee in private real estate ventures in Southwest Florida; Director, Trustee, or Managing General Partner of the Funds; formerly, President, Naples Property Management, Inc.
William J. Copeland One PNC Plaza-23rd Floor Pittsburgh, PA	Director	Director and Member of the Executive Committee, Michael Baker, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Vice Chairman and Director, PNC Bank, N.A., and PNC Bank Corp. and Director, Ryan Homes, Inc.
J. Christopher Donahue* Federated Investors Tower Pittsburgh, PA	President and Director	President and Trustee, Federated Investors; Trustee, Federated Advisers, Federated Management, and Federated Research; Director, Federated Administrative Services, Inc.; President or Vice President of the Funds; Director, Trustee, or Managing General Partner of some of the Funds. Mr. Donahue is the son of John F. Donahue, Chairman and Director of the Corporation.
James E. Dowd 571 Hayward Mill Road Concord, MA	Director	Attorney-at-law; Director, The Emerging Germany Fund, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Director, Blue Cross of Massachusetts, Inc.
Lawrence D. Ellis, M.D. 3471 Fifth Avenue Suite 1111 Pittsburgh, PA	Director	Hematologist, Oncologist, and Internist, Presbyterian and Montefiore Hospitals; Clinical Professor of Medicine and Trustee, University of Pittsburgh; Director, Trustee, or Managing General Partner of the Funds.
Edward L. Flaherty, Jr.\ 5916 Penn Mall Pittsburgh, PA	Director	Attorney-at-law; Partner, Meyer and Flaherty; Director, Eat'N Park Restaurants, Inc., and Statewide Settlement Agency, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Counsel, Horizon Financial, F.A., Western Region.

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Peter E. Madden 225 Franklin Street Boston, MA	Director	Consultant; State Representative, Commonwealth of Massachusetts; Director, Trustee, or Managing General Partner of the Funds; formerly, President, State Street Bank and Trust Company, State Street Boston Corporation and Trustee, Lahey Clinic Foundation, Inc.
Gregor F. Meyer 5916 Penn Mall Pittsburgh, PA	Director	Attorney-at-law; Partner, Meyer and Flaherty; Chairman, Meritcare, Inc.; Director, Eat'N Park Restaurants, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Vice Chairman, Horizon Financial, F.A.
Wesley W. Posvar 1202 Cathedral of Learning University of Pittsburgh Pittsburgh, PA	Director	Professor, Foreign Policy and Management Consultant; Trustee, Carnegie Endowment for International Peace, RAND Corporation, Online Computer Library Center, Inc., and U.S. Space Foundation; Chairman, Czecho Slovak Management Center; Director, Trustee, or Managing General Partner of the Funds; President Emeritus, University of Pittsburgh; formerly Chairman, National Advisory Council for Environmental Policy and Technology.
Marjorie P. Smuts 4905 Bayard Street Pittsburgh, PA	Director	Public relations/marketing consultant; Director, Trustee, or Managing General Partner of the Funds.
Richard B. Fisher Federated Investors Tower Pittsburgh, PA	Vice President	Executive Vice President and Trustee, Federated Investors; Chairman and Director, Federated Securities Corp.; President or Vice President of the Funds; Director or Trustee of some of the Funds.
Edward C. Gonzales Federated Investors Tower Pittsburgh, PA	Vice President and Treasurer	Vice President, Treasurer, and Trustee, Federated Investors; Vice President and Treasurer, Federated Advisers, Federated Management, and Federated Research; Executive Vice President, Treasurer, and Director, Federated Securities Corp.; Chairman, Treasurer, and Director, Federated Administrative Services, Inc.; Trustee or Director of some of the Funds; Vice President and Treasurer of the Funds.
John W. McGonigle Federated Investors Tower Pittsburgh, PA	Vice President and Secretary	Vice President, Secretary, General Counsel, and Trustee, Federated Investors; Vice President, Secretary, and Trustee, Federated Advisers, Federated Management, and Federated Research; Executive Vice President, Secretary, and Director, Federated Administrative Services, Inc.; Director and Executive Vice President, Federated Securities Corp.; Vice President and Secretary of the Funds.
John A. Staley, IV Federated Investors Tower Pittsburgh, PA	Vice President	Vice President and Trustee, Federated Investors; Executive Vice President, Federated Securities Corp.; President and Trustee, Federated Advisers, Federated Management, and Federated Research; Vice President of the Funds; Director, Trustee, or Managing General Partner of the Funds; formerly, Vice President, The Standard Fire Insurance Company and President of its Federated Research Division.

</TABLE>

*This Director is deemed to be an "interested person" of the Corporation as defined in the Investment Company Act of 1940.

\Members of the Corporation's Executive Committee. The Executive Committee of the Board of Directors handles the responsibilities of the Directors between meetings of the Directors.

THE FUNDS

"The Funds" and "Funds" mean the following investment companies: A.T. Ohio Tax-Free Money Fund; American Leaders Fund, Inc.; Annuity Management Series; Automated Cash Management Trust; Automated Government Money Trust; The Boulevard Funds; California Municipal Cash Trust; Cash Trust Series, Inc.; Cash Trust Series II; DG Investor Series; Edward D. Jones & Co. Daily Passport Cash Trust; FT Series, Inc.; Federated ARMs Fund; Federated Exchange Fund, Ltd.; Federated GNMA Trust; Federated Government Trust; Federated Growth Trust; Federated High Yield Trust; Federated Income Securities Trust; Federated Income Trust; Federated Index Trust; Federated Intermediate Government Trust; Federated Master Trust; Federated Municipal Trust; Federated Short-Intermediate Government Trust; Federated Short-Term U.S. Government Trust; Federated Stock Trust; Federated Tax-Free Trust; Federated U.S. Government Bond Fund; First Priority Funds; Fixed Income Securities, Inc.; Fortress Adjustable Rate U.S. Government Fund, Inc.; Fortress Municipal Income Fund, Inc.; Fortress Utility Fund, Inc.; Fund for U.S. Government Securities, Inc.; Government Income Securities, Inc.; High Yield Cash Trust; Intermediate Municipal Trust; Investment Series Funds, Inc.; Investment Series Trust; Liberty Equity Income Fund, Inc.; Liberty High Income Bond Fund, Inc.; Liberty Municipal Securities Fund, Inc.; Liberty U.S. Government Money Market Trust; Liberty Term Trust, Inc.-1999; Liberty Utility Fund, Inc.; Liquid

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Cash Trust; Mark Twain Funds; Money Market Management, Inc.; Money Market Obligations Trust; Money Market Trust; Municipal Securities Income Trust; New York Municipal Cash Trust; 111Corcoran Funds; The Planters Funds; Portage Funds; RIMCO Monument Funds; The Shawmut Funds; Short-Term Municipal Trust; Signet Select Funds; Star Funds; The Starburst Funds; The Starburst Funds II; Stock and Bond Fund, Inc.; Sunburst Funds; Targeted Duration Trust; Tax-Free Instruments Trust; Trademark Funds; Trust for Financial Institutions; Trust for Government Cash Reserves; Trust for Short-Term U.S. Government Securities; and Trust for U.S. Treasury Obligations.

FUND OWNERSHIP

Officers and Directors own less than 1% of each Fund's outstanding shares.

As of November 30, 1993, the following shareholders of record owned 5% or more of the outstanding shares of each class of shares of the Fund:

Liberty Bank and Trust, as custodian for IRM retirement plans, Gibbsboro, New Jersey, owned approximately 982,074.321 shares (94.09%) of Investment Shares of the Fund.

Merrill, Lynch, Pierce, Fenner & Smith, Jacksonville, Florida, owned approximately 133,855 shares (15.46%), for the benefit of its customers, of Class A Shares of the Fund.

Merrill, Lynch, Pierce, Fenner & Smith, (as record owner holding Fund shares for its clients) Jacksonville, Florida, owned approximately 7,608 shares (28.38%); Mary E. Sullivan, Pittsburgh, Pennsylvania, owned approximately 2,202 shares (8.21%); Raymond James & Assoc., Inc., custodian for the IRA of Johan A. DeJong, Greenville, South Carolina, owned approximately 1,925.059 shares (7.28%); Mead J. Mulvihill, Jr. and Margaret O. Mulvihill, JTWROS, Pittsburgh, Pennsylvania, owned approximately 1,601.281 shares (5.97%); and Paine Webber, for the benefit of Melinda Russi Gerard, Dallas, Texas, owned approximately 1,584.786 shares (5.91%), of Class C Shares of the Fund.

INVESTMENT ADVISORY SERVICES
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ADVISER TO THE FUND

The Fund's investment adviser is Federated Advisers (the "Adviser"). It is a subsidiary of Federated Investors. All of the voting securities of Federated Investors are owned by a trust, the trustees of which are John F. Donahue, his wife, and his son, J. Christopher Donahue. John F. Donahue, Chairman and Trustee of Federated Advisers, is Chairman and Trustee of Federated Investors and Chairman and Director of the Corporation. John A. Staley, IV, President and Trustee of Federated Advisers, is Vice President and Trustee of Federated Investors; Executive Vice President of Federated Securities Corp.; and Vice President of the Corporation. J. Christopher Donahue, Trustee of Federated Advisers, is President and Trustee of Federated Investors; Director of Federated Administrative Services, Inc.; and President and Director of the Corporation. John W. McGonigle, Vice President, Secretary, and Trustee of Federated Advisers, is Trustee, Vice President, Secretary, and General Counsel of Federated Investors; Director, Executive Vice President and Secretary of Federated Administrative Services, Inc.; Director, Federated Securities Corp.; and Vice President, and Secretary of the Corporation.

The Adviser shall not be liable to the Corporation, the Fund, or any shareholder of the Fund for any losses that may be sustained in the purchase, holding, or sale of any security, or for anything done or omitted by it, except acts or omissions involving willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties imposed upon it by its contract with the Corporation.

ADVISORY FEES

For its advisory services, the Adviser receives an annual investment advisory fee as described in the respective prospectuses. For the fiscal year ended October 31, 1993, the period ended October 31, 1992, and the fiscal years ended December 31, 1991, and 1990, the Fund's Adviser earned, with respect to this Fund, $165,261, $105,850, and $76,409, and $46,905 respectively, all of which was waived because of undertakings to limit the Fund's expenses.

STATE EXPENSE LIMITATIONS

The Adviser has undertaken to comply with the expense limitations

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established by certain states for investment companies whose shares are registered for sale in those states. If the Fund's normal operating expenses (including the investment advisory fee, but not including brokerage commissions, interest, taxes, and extraordinary expenses) exceed 2-1/2% per year of the first $30 million of average net assets, 2% per year on the next $70 million of average net assets, and 1-1/2% per year of the remaining average net assets, the Adviser will reimburse the Fund for its expenses over the limitation.

If the Fund's monthly projected operating expenses exceed this limitation, the investment advisory fee paid will be reduced by the amount of the excess, subject to an annual adjustment. If the expense limitation is exceeded, the amount to be reimbursed by the Adviser will be limited, in any single fiscal year, by the amount of the investment advisory fee.

This arrangement is not part of the advisory contract and may be amended or rescinded in the future.

ADMINISTRATIVE SERVICES ARRANGEMENTS

For the fiscal year ended October 31, 1993, the period ended October 31, 1992 (prior to the reorganization of the Fund as a portfolio of the Corporation) the distributor paid $18,638 and $829 to brokers and dealers for distribution and administrative services and to administrators for administrative services.

The administrative services include, but are not limited to, providing office space, equipment, telephone facilities, and various personnel, including clerical, supervisory, and computer, as is necessary or beneficial to establish and maintain shareholders' accounts and records; processing purchase and redemption transactions; processing automatic investments of client account cash balances; answering routine client inquiries regarding the Fund; assisting clients in changing dividend options, account designations, and addresses; and providing such other services as the Fund may reasonably request.

ADMINISTRATIVE SERVICES
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Federated Administrative Services, Inc., a subsidiary of Federated Investors, provides administrative personnel and services to the Fund at approximate cost. For the fiscal year ended October 31, 1993, the period ended October 31, 1992, and the fiscal years ended December 31, 1991 and 1990, prior to the reorganization of the Fund as a portfolio of the Corporation, the Fund incurred $240,157, $166,758, $177,435, and $84,818 respectively, for administrative services, all of which were waived by the Adviser in an effort to limit Fund expenses. John A. Staley, IV, an officer of the Corporation, and Dr. Henry J. Gailliot, an officer of Federated Advisers, the Adviser to the Fund, each hold approximately 15% and 20%, respectively, of the outstanding common stock and serve as directors of Commercial Data Services, Inc., a company which provides computer processing services to Federated Administrative Services, Inc. For the fiscal year ended October 31, 1993, the period ended October 31, 1992, and the fiscal years ended December 31, 1991, and 1990, a portion of which occurred prior to the reorganization of the Fund as a portfolio of the Corporation, Federated Administrative Services, Inc. paid approximately $165,431, $189,741, $196,783, and $169,379, respectively, for services provided by Commercial Data Services, Inc.

BROKERAGE TRANSACTIONS
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The Adviser may select brokers and dealers who offer brokerage and research services. These services may be furnished directly to the Fund or to the Adviser and may include:

advice as to the advisability of investing in securities;

security analysis and reports;

economic studies;

industry studies;

receipt of quotations for portfolio evaluations; and

similar services.

The Adviser and its affiliates exercise reasonable business judgment in

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selecting brokers who offer brokerage and research services to execute securities transactions. They determine in good faith that commissions charged by such persons are reasonable in relation to the value of the brokerage and research services provided.

Research services provided by brokers may be used by the Adviser or by affiliates of Federated Investors in advising Federated Funds and other accounts. To the extent that receipt of these services may supplant services for which the Adviser or its affiliates might otherwise have paid, it would tend to reduce their expenses.

For the fiscal year ended October 31, 1993, the period ended October 31, 1992 and the fiscal years ended December 31, 1991, and 1990, a portion of which occurred prior to the reorganization of the Fund as a portfolio of the Corporation, the Fund paid $44,421, $39,310, $18,320, and $10,530, respectively, in brokerage commissions on brokerage transactions.

PURCHASING SHARES

Shares are sold at their net asset value (plus a sales load on Investment Shares and Class A Shares only) on days the New York Stock Exchange is open for business. The procedure for purchasing Shares is explained in the respective prospectuses under "Investing in Investment Shares," "Investing in Class A Shares," or "Investing in Class C Shares".

DISTRIBUTION PLAN

With respect to Class A Shares and Class C Shares of the Fund, the Corporation has adopted a Plan pursuant to Rule 12b-1 which was promulgated by the Securities and Exchange Commission under the Investment Company Act of 1940. The Plan provides for payment of fees to Federated Securities Corp. to finance any activity which is principally intended to result in the sale of the Shares subject to the Plan. Such activities may include the advertising and marketing of Shares; preparing, printing and distributing prospectuses and sales literature to prospective shareholders, brokers or administrators; and implementing and operating the Plan. Pursuant to the Plan, the distributor may pay fees to brokers for distribution and administrative services and to administrators for administrative services as to Shares. The administrative services are provided by a representative who has knowledge of the shareholder's particular circumstances and goals, and include, but are not limited to: communicating account openings; communicating account closings; entering purchase transactions; entering redemption transactions; providing or arranging to provide accounting support for all transactions, wiring funds and receiving funds for Share purchases and redemptions, confirming and reconciling all transactions; reviewing the activity in Fund accounts, and providing training and supervision of broker personnel; posting and reinvesting dividends to Fund accounts or arranging for this service to be performed by the Fund's transfer agent; and maintaining and distributing current copies of prospectuses and shareholder reports to the beneficial owners of Shares and prospective shareholders. Financial institutions and brokers providing sales and/or administrative services may receive a different compensation from one class of Shares of the Fund than from another class of Shares.

The Directors expect that the adoption of the Plan will result in the sale of a sufficient number of Shares so as to allow the Fund to achieve economic viability. It is also anticipated that an increase in the size of the Fund will facilitate more efficient portfolio management and assist the Fund in seeking to achieve its investment objective.

PURCHASES BY SALES REPRESENTATIVES, DIRECTORS, AND EMPLOYEES

Directors, employees, and sales representatives of the Fund, Federated Advisers, and Federated Securities Corp. or their affiliates, or any investment dealer who has a sales agreement with Federated Securities Corp., their spouses, and their children under 21, may buy Shares at net asset value without a sales charge or redemption fees. Shares may also be sold without a sales charge to trusts or pension or profit-sharing plans for these persons.

CONVERSION TO FEDERAL FUNDS

It is the Fund's policy to be as fully invested as possible so that maximum interest may be earned. To this end, all payments from shareholders must be in federal funds or be converted into federal funds. State Street Bank and Trust Company ("State Street Bank") acts as the shareholder's agent in depositing checks and converting them to federal funds.

DETERMINING NET ASSET VALUE

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Net asset value generally changes each day. The days on which net asset value is calculated by the Fund are described in the respective prospectuses.

DETERMINING MARKET VALUE OF SECURITIES

Market values of the Fund's portfolio securities, other than options, are determined as follows:

according to the last sale price on a national securities exchange, if available;

in the absence of recorded sales for equity securities, according to the mean between the last closing bid and asked prices, and for bonds and other fixed income securities, as determined by an independent pricing service;

for unlisted equity securities, the latest bid prices;

for short-term obligations, according to the mean between bid and asked prices as furnished by an independent pricing service, or for short-term obligations with maturities of 60 days or less, at amortized cost; or

at fair value as determined in good faith by the Directors.

Options are valued at the market values established by the exchanges at the close of option trading unless the Directors determine in good faith that another method of valuing option positions is necessary.

For the fiscal year ended October 31, 1993, for the period ended October 31, 1992, and the fiscal years ended December 31, 1991, and 1990, a portion of which occurred prior to the reorganization of the Fund as a portfolio of the Corporation, the Fund paid $112,187, $5,229, $0 and $0, respectively.

REDEEMING SHARES

The Fund redeems Shares at the next computed net asset value after State Street Bank receives the redemption request. Shareholder redemptions may be subject to a redemption fee. Redemption procedures are explained in the respective prospectuses under "Redeeming Investment Shares," "Redeeming Class A Shares," or "Redeeming Class C Shares."

TAX STATUS

THE FUND'S TAX STATUS

The Fund will pay no federal income tax because it expects to meet the requirements of Subchapter M of the Internal Revenue Code, as amended, applicable to regulated investment companies and to receive the special tax treatment afforded to such companies. To qualify for this treatment, the Fund must, among other requirements:

derive at least 90% of its gross income from dividends, interest, and gains from the sale of securities;

derive less than 30% of its gross income from the sale of securities held less than three months;

invest in securities within certain statutory limits; and

distribute to its shareholders at least 90% of its net income earned during the year.

SHAREHOLDERS' TAX STATUS

Shareholders are subject to federal income tax on dividends and capital gains received as cash or additional Shares. No portion of any income dividend paid by the Fund is eligible for the dividends received deduction available to corporations. These dividends, and any short-term capital gains, are taxable as ordinary income.

CAPITAL GAINS

Shareholders will pay federal tax at capital gains rates on long-term capital gains distributed to them regardless of how long they have held the Shares.

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TOTAL RETURN

Cumulative total return reflects the Fund's total performance of all classes of Shares over a specific period of time.

The average annual total return for all classes of Shares of the Fund is the average compounded rate of return for a given period that would equate a $1,000 initial investment to the ending redeemable value of that investment. The ending redeemable value is computed by multiplying the number of Shares owned at the end of the period by the offering price per Share at the end of the period. The number of Shares owned at the end of the period is based on the number of Shares purchased at the beginning of the period with $1,000, less any applicable sales load (Investment Shares and Class A Shares only), adjusted over the period by any additional Shares, assuming the quarterly reinvestment of all dividends and distributions. Any applicable redemption fee is deducted from the ending value of the investment based on the lesser of the original purchase price or the net asset value of Shares redeemed. Occasionally, total return which does not reflect the effect of the sales load may be quoted in advertising.

The Fund's average annual total returns for the one year period ended October 31, 1993 were 9.07%, and 10.13%, for Investment Shares and Class A Shares, respectively. The average annual total return for the period from November 30, 1989 (effective date of Fund's registration statement) to October 31, 1993, from the period from January 16, 1992 (effective date of Fund's registration statement) to October 31, 1993 and from the period April 13, 1993 (effective date of Fund's registration statement) to October 31, 1993 were 8.80%, 2.40%, and 6.86% for Investment Shares, Class A Shares and Class C Shares, respectively.

YIELD

The yield for each class of Shares of the Fund is determined each day by dividing the net investment income per Share (as defined by the Securities and Exchange Commission) earned by each class of Shares over a thirty-day period by the maximum offering price per Share of each class of Shares on the last day of the period. This value is then annualized using semi-annual compounding. This means that the amount of income generated during the thirty-day period is assumed to be generated each month over a twelve-month period and is reinvested every six months. The yield does not necessarily reflect income actually earned by the Fund because of certain adjustments required by the Securities and Exchange Commission and, therefore, may not correlate to the dividends or other distributions paid to shareholders.

To the extent that financial institutions and broker/dealers charge fees in connection with services provided in conjunction with an investment in each class of Shares, the performance will be reduced for those shareholders paying those fees.

The Fund's yield for the thirty-day period ended October 31, 1993, was 0.53%, 0.29% and (0.43)% for Investment Shares, Class A Shares, and Class C Shares, respectively.

PERFORMANCE COMPARISONS

The Fund's performance of each class of Shares depends upon such variables as:

portfolio quality;

average portfolio maturity;

type of instruments in which the portfolio is invested;

changes in interest rates and market value of portfolio securities;

changes in the Fund's or a class of Shares' expenses; and

various other factors.

Any class of Shares' performance fluctuates on a daily basis largely because net earnings and offering price per Share fluctuate. Both net earnings and offering price per Share are factors in the computation of yield and total return.

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From time to time, any class of Shares may advertise its performance compared to similar funds or portfolios using certain indices, reporting services, and financial publications. These may include the following:

LIPPER ANALYTICAL SERVICES, INC. ranks funds in various fund categories by making comparative calculations using total return. Total return assumes the reinvestment of all capital gains distributions and income dividends and takes into account any change in net asset value over a specified period of time. From time to time, the Fund will quote its Lipper ranking in the "growth funds" category in advertising and sales literature.

DOW JONES INDUSTRIAL AVERAGE ("DJIA") represents share prices of selected blue chip industrial corporations as well as public utility and transportation companies. The DJIA indicates daily changes in the average price of stocks in any of its categories. It also reports total sales for each group of industries. Because it represents the top corporations of America, the DJIA's index movement are leading economic indicators for the stock market as a whole.

STANDARD & POOR'S DAILY STOCK PRICE INDEX OF 500 COMMON STOCKS, a composite index of common stocks in industry, transportation, and financial and public utility companies, compares total returns of funds whose portfolios are invested primarily in common stocks. In addition, the Standard & Poor's index assumes reinvestment of all dividends paid by stocks listed on its index. Taxes due on any of these distributions are not included, nor are brokerage or other fees calculated in the Standard & Poor's figures.

MORNINGSTAR, INC., an independent rating service, is the publisher of the bi-weekly Mutual Fund Values. Mutual Fund Values rates more than 1,000 NASDQ-listed mutual funds of all types, according to their risk-adjusted returns. The maximum rating is five stars, and ratings are effective for two weeks.

Investors may use such indices or reporting services in addition to each respective class of Shares' prospectus to obtain a more complete view of the respective Shares' performance before investing. Of course, when comparing the performance of any class of Shares to any index, factors such as composition of index and prevailing market conditions should be considered in assessing the significance of such comparisons.

When comparing funds using reporting services, or total return and yield, investors should take into consideration any relevant differences in funds such as permitted portfolio compositions and methods used to value portfolio securities and compute offering price.

Advertisements and sales literature for any class of Shares may quote total returns which are calculated on non-standardized base periods. These total returns also represent the historic change in the value of an investment in any class of Shares based on quarterly reinvestment of dividends over a specified period of time.

Advertisements may quote performance information which does not reflect the effect of a sales load.

APPENDIX

STANDARD AND POOR'S CORPORATION CORPORATE BOND RATINGS

AAA--Debt rated AAA has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

AA--Debt rated AA has a very strong capacity to pay interest and repay principal and differs from the higher rated issues only in small degree.

A--Debt rated A has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.

BBB--Debt rated BBB is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakend capacity to pay interest and repay principal for debt in this category than in higher rated categories.

BB, B--Debt rated BB or B, is regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB indicates a low degree of speculation.

MOODY'S INVESTORS SERVICE, INC., CORPORATE BOND RATINGS

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Aaa--Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa--Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long term risks appear somewhat larger than in Aaa securities.

A--Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment some time in the future.

Baa--Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba--Bonds which are Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B--Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

FITCH INVESTORS SERVICE, INC., LONG-TERM DEBT RATINGS

AAA--Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

AA--Bonds considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated AAA. Because bonds rated in the AAA and AA categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally rated F-1+.

A--Bonds considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

STANDARD AND POOR'S CORPORATION COMMERCIAL PAPER RATINGS

A-1--This designation indicates that the degree of safety regarding timely payment is either overwhelming or very strong. Those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) SIGN DESIGNATION.

A-2--Capacity for timely payment on issues with this designation is strong. However, the relative degree of safety is not as high as for issues designated A-1.

MOODY'S INVESTORS SERVICE, INC., COMMERCIAL PAPER RATINGS

P-1--Issuers rated PRIME-1 (or related supporting institutions) have a superior capacity for repayment of short-term promissory obligations. Prime-1 repayment capacity will normally be evidenced by the following characteristics: conservative capitalization structures with moderate reliance on debt and ample asset protection; broad margins in earning coverage of fixed financial charges and high internal cash generation; well established access to a range of financial markets and assured sources of alternate liquidity.

P-2--Issuers rated PRIME-2 (or related supporting institutions) have a strong capacity for repayment of short-term promissory obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, will be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

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FITCH INVESTORS SERVICE, INC., SHORT-TERM DEBT RATINGS

F-1+--Exceptionally Strong Credit Quality. Issues assigned this rating are regarded as having the strongest degree of assurance for timely payment.

F-1--Very Strong Credit Quality. Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than issues rated F-1+.

F-2--Good Credit Quality. Issues carrying this rating have a satisfactory degree of assurance for timely payment.

FORTRESS BOND FUND
PROSPECTUS
DECEMBER 31, 1993
ESTABLISHED 1987

FORTRESS BOND FUND

(A PORTFOLIO OF INVESTMENT SERIES FUNDS, INC.)
PROSPECTUS

The shares of Fortress Bond Fund (the "Fund") offered by this prospectus represent interests in a diversified portfolio of securities which is an investment portfolio of Investment Series Funds, Inc. (the "Corporation"), an open-end management investment company (a mutual fund).

The investment objective of the Fund is to provide as high a level of current income as is consistent with the preservation of capital by investing primarily in a portfolio of investment grade bonds.

THE SHARES OFFERED BY THIS PROSPECTUS ARE NOT DEPOSITS OR OBLIGATIONS OF ANY BANK, ARE NOT ENDORSED OR GUARANTEED BY ANY BANK, AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE BOARD, OR ANY OTHER GOVERNMENT AGENCY. INVESTMENT IN THESE SHARES INVOLVES INVESTMENT RISKS INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

This prospectus contains the information you should read and know before you invest in the Fund. Keep this prospectus for future reference.

The Fund has also filed a Statement of Additional Information dated December 31, 1993, with the Securities and Exchange Commission. The information contained in the Statement of Additional Information is incorporated by reference in this prospectus. You may request a copy of the Statement of Additional Information free of charge, obtain other information, or make inquiries about the Fund by writing or calling the Fund.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Prospectus dated December 31, 1993

TABLE OF CONTENTS

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SUMMARY OF FUND EXPENSES 1

FINANCIAL HIGHLIGHTS 2

GENERAL INFORMATION 3

FORTRESS INVESTMENT PROGRAM 3

INVESTMENT INFORMATION 4

Investment Objective 4
Investment Policies 4
Acceptable Investments 4
Corporate Debt Obligations 5
U.S. Government Obligations 5
Asset-Backed Securities 6
Non-Mortgage Related Asset-Backed Securities 7
Mortgage-Related Asset-Backed Securities 7
Adjustable Rate Mortgage Securities ("ARMS") 7
Collateralized Mortgage Obligations ("CMOs") 7
Real Estate Mortgage Investment Conduits ("REMICs") 7
Resets of Interest 8
Caps and Floors 8
Bank Instruments 8
Zero Coupon Convertible Securities 9
Restricted and Illiquid Securities 9
Foreign Securities 9

Investing in Securities of Other Investment Companies 10

Temporary Investments 10
Repurchase Agreements 10
When-Issued and Delayed Delivery Transactions 10
Lending of Portfolio Securities 10
Put and Call Options 10
Risks 11
Investment Limitations 12

NET ASSET VALUE 12

INVESTING IN THE FUND 12

Share Purchases 12
Through a Financial Institution 12
Directly By Mail 13
Directly By Wire 13
Minimum Investment Required 13
What Shares Cost 13
Dealer Concession 14
Eliminating the Sales Charge 14
Quantity Discounts and Accumulated Purchases 14
Letter of Intent 14
Reinvestment Privilege 15
Concurrent Purchases 15
Systematic Investment Program 15
Exchange Privilege 15
Certificates and Confirmations 16
Dividends and Distributions 16
Retirement Plans 16

REDEEMING SHARES 16

Through a Financial Institution 16
Directly By Mail 17

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Please Consider the Environment Before Printing This Document

Signatures 17
Receiving Payment 17
Redemption Fee 17
Systematic Withdrawal Program 18
Redemption Before Purchase
Instruments Clear 19
Accounts with Low Balances 19
Exchanges for Shares of Other Funds 19

INVESTMENT SERIES FUNDS, INC., INFORMATION 19

Management of the Corporation 19
Board of Directors 19
Investment Adviser 19
Advisory Fees 19
Adviser's Background 20
Distribution of Fund Shares 20
Administration of the Fund 20
Administrative Services 20
Shareholder Services Plan 20

Custodian 21

Transfer Agent and Dividend Disbursing Agent 21

Legal Counsel 21
Independent Auditors 21
Expenses of the Fund 21

SHAREHOLDER INFORMATION 22

Voting Rights 22

TAX INFORMATION 22

Federal Income Tax 22
Pennsylvania Corporate and
Personal Property Taxes 22

PERFORMANCE INFORMATION 23

FINANCIAL STATEMENTS 24

REPORT OF ERNST & YOUNG, INDEPENDENT AUDITORS 37

ADDRESSES Inside Back Cover

SUMMARY OF FUND EXPENSES

<TABLE>

<S>	<C>	<C>
SHAREHOLDER TRANSACTION EXPENSES		
Maximum Sales Load Imposed on Purchases (as a percentage of offering price)		1.00%
Maximum Sales Load Imposed on Reinvested Dividends (as a percentage of offering price)		None
Deferred Sales Load (as a percentage of original purchase price or redemption proceeds, as applicable)		None
Redemption Fee (as a percentage of amount redeemed, if applicable)(1)		1.00%
Exchange Fee		None
ANNUAL FUND OPERATING EXPENSES (As a percentage of average net assets)		
Management Fee (after waiver)(2)		0.15%
12b-1 Fee		None
Total Other Expenses		0.90%
Shareholder Servicing Fee		0.25%
Total Fund Operating Expenses(3)		1.05%

</TABLE>

(1) The redemption fee charged is 1.00% of the lesser of the original purchase price or the net asset value of shares redeemed within four years of their

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purchase date.

(2) The management fee has been reduced to reflect the voluntary waiver of a portion of the management fee. The adviser can terminate this voluntary waiver at any time at its sole discretion. The maximum management fee is 0.75%.

(3) The Total Fund Operating Expenses in the table above are based on expenses expected during the fiscal year ending October 31, 1994. The Total Fund Operating Expenses were 1.04% for the fiscal year ended October 31, 1993 and were 1.65% absent the voluntary waiver of a portion of the management fee.

THE PURPOSE OF THIS TABLE IS TO ASSIST AN INVESTOR IN UNDERSTANDING THE VARIOUS COSTS AND EXPENSES THAT A SHAREHOLDER OF THE FUND WILL BEAR, EITHER DIRECTLY OR INDIRECTLY. FOR MORE COMPLETE DESCRIPTIONS OF THE VARIOUS COSTS AND EXPENSES, SEE "INVESTMENT SERIES FUNDS, INC., INFORMATION." Wire transferred redemptions of less than $1,000 may be subject to additional fees.

<TABLE>
<CAPTION>

EXAMPLE	1 year	3 years	5 years	10 years
<S>	<C>	<C>	<C>	<C>
You would pay the following expenses on a $1,000 investment assuming (1) 5% annual return and (2) redemption at the end of each time period.....	$ 31	$ 54	$ 67	$ 137
You would pay the following expenses on the same investment, assuming no redemption.....	$ 21	$ 43	$ 67	$ 137

</TABLE>

THE ABOVE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES. ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN.

FORTRESS BOND FUND

FINANCIAL HIGHLIGHTS

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)
Reference is made to the Report of Ernst & Young, Independent Auditors on page 37.

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,		YEAR ENDED DECEMBER 31,			
	1993	1992**	1991	1990	1989	1988***
<S>	<C>	<C>	<C>	<C>	<C>	<C>
NET ASSET VALUE, BEGINNING OF PERIOD	$9.23	$8.81	$6.89	$8.79	$9.86	$10.06
INCOME FROM INVESTMENT OPERATIONS						
Net investment income	0.77	0.59	1.01	1.08	1.23	0.61
Net realized and unrealized gain (loss) on investments	1.07	0.43	1.92	(1.84)	(1.07)	(0.16)
Total from investment operations	1.84	1.02	2.93	(0.76)	0.16	0.45
LESS DISTRIBUTIONS						
Dividends to shareholders from net investment income	(0.77)	(0.60)	(1.01)	(1.14)	(1.23)	(0.65)
NET ASSET VALUE, END OF PERIOD	$10.30	$9.23	$8.81	$6.89	$8.79	$9.86
TOTAL RETURN*	20.61%	11.79%	44.62%	-9.59%	1.32%	4.62 %(a)
RATIOS TO AVERAGE NET ASSETS						
Expenses	1.04%	0.49%(b)	1.00%	1.01%	1.14%	1.00 %(b)
Net investment income	7.69%	8.05%(b)	12.17%	13.43%	12.81%	12.58 %(b)
Expense waiver/reimbursement(c)	0.61%	2.01%(b)	1.50%	1.49%	1.36%	1.00 %(b)

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SUPPLEMENTAL DATA						
Net assets, end of period (000 omitted)	$125,762	$54,886	$6,068	$7,484	$4,734	$4,968
Portfolio turnover rate	51%	49%	33%	28%	38%	31 %

</TABLE>

<TABLE>
<S> <C>

* Based on net asset value which does not reflect the sales load or redemption fee, if applicable.

** For the ten months ended October 31, 1992.

*** Reflects operations for the period from July 8, 1988 (date of initial public investment) to December 31, 1988. For the period from the start of business, May 5, 1987, to July 8, 1988, income aggregating $1.270 per share ($92,475) was distributed to the Fund's investment adviser.

(a) Cumulative total return.

(b) Computed on an annualized basis.

(c) This expense decrease is reflected in both the expense and net investment income ratios shown above (Note 5).

</TABLE>

Further information about the Fund's performance is contained in the Fund's annual report dated December 31, 1993, which can be obtained free of charge.

(See Notes which are an integral part of the Financial Statements)

GENERAL INFORMATION

The Corporation was organized under the laws of the State of Maryland on May 20, 1992. Prior to February 5, 1993, the Fund was operated as a portfolio of Investment Series Trust, a Massachusetts business trust established pursuant to a Declaration of Trust dated March 17, 1987. On February 3, 1993, the shareholders of the Fund voted to reorganize the Fund as a portfolio of the Corporation. On June 15, 1992, the shareholders of High Income Securities Fund approved a change to the investment objective of the Fund, as well as the name of the Fund to Fortress Bond Fund. The Articles of Incorporation permit the Corporation to offer separate series of shares of beneficial interest representing interests in separate portfolios of securities. The shares in any one portfolio may be offered in separate classes. This prospectus relates only to Fortress Bond Fund.

A minimum initial investment of $1,500 is required, except for an IRA account, which requires a $50 minimum initial investment. The minimum subsequent investment is $100, except for an IRA account, which requires a minimum subsequent investment of $50.

Fund shares are sold at net asset value plus an applicable sales charge and are redeemed at net asset value. However, a redemption fee is imposed on shares, other than shares purchased through reinvestment of dividends, which are redeemed within four years of their purchase dates.

FORTRESS INVESTMENT PROGRAM

This Fund is a member of a family of funds, collectively known as the Fortress Investment Program. The other funds in the Program are:

American Leaders Fund, Inc. (Fortress Shares only)--a fund providing growth of capital and income by concentrating the area of investment decision in the securities of high quality companies;

California Municipal Income Fund (Fortress Shares only)--a fund providing current income exempt from federal regular income tax and California personal income taxes;

Fortress Adjustable Rate U.S. Government Fund, Inc.--a fund providing current income consistent with lower volatility of principal through a diversified portfolio of adjustable and floating rate mortgage securities which are issued or guaranteed by the U.S. government, its agencies or instrumentalities;

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Fortress Municipal Income Fund, Inc.--a fund providing high current income generally exempt from federal regular income tax by investing primarily in a diversified portfolio of municipal bonds;

Fortress Utility Fund, Inc.--a fund providing high current income and moderate capital appreciation primarily through equity and debt securities of utility companies;

Government Income Securities, Inc.--a fund providing current income through long-term U.S. government securities;

Liberty Equity Income Fund, Inc. (Fortress Shares only)--a fund providing above average income and capital appreciation;

Limited Term Fund (Fortress Shares only)--a fund providing a high level of current income consistent with minimum fluctuation in principal value;

Limited Term Municipal Fund (Fortress Shares only)--a fund providing a high level of current income which is exempt from federal regular income tax consistent with the preservation of capital;

Money Market Management, Inc.--a fund providing current income consistent with stability of principal through high-quality money market instruments;

New York Municipal Income Fund (Fortress Shares only)--a fund providing current income exempt from federal regular income tax, New York personal income taxes, and New York City income taxes; and

Ohio Municipal Income Fund (Fortress Shares only)--a fund providing current income exempt from federal regular income tax and Ohio personal income taxes.

Each of the funds may also invest in certain other types of securities as described in each fund's prospectus.

The Fortress Investment Program provides flexibility and diversification for an investor's long-term investment planning. It enables an investor to meet the challenges of changing market conditions by offering convenient exchange privileges which give access to nine investment vehicles, and by providing the investment services of a proven, professional investment adviser.

INVESTMENT INFORMATION
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INVESTMENT OBJECTIVE

The investment objective of the Fund is to provide as high a level of current income as is consistent with the preservation of capital. While there is no assurance that the Fund will achieve its investment objective, it endeavors to do so by following the investment policies described in this prospectus. The investment objective stated above cannot be changed without the approval of shareholders. As a matter of investment policy, which can be changed without shareholder approval, the Fund will invest, under normal circumstances, at least 65% of the value of its total net assets in investment grade bonds. Investment grade bonds are generally described as bonds which are rated in one of the top four rating categories by a nationally recognized statistical rating organization ("NRSRO") such as Moody's Investors Service, Inc., Standard & Poor's Corporation, or Fitch Investors Service, Inc. A description of the ratings categories is contained in the Appendix to the Statement of Additional Information.

INVESTMENT POLICIES

ACCEPTABLE INVESTMENTS. The Fund invests primarily in a professionally managed, diversified portfolio of investment grade bonds. The permitted investments include:

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- corporate debt obligations (as a matter of operating policy, the lowest rated corporate debt obligations in which the Fund will invest will be rated B or better by a NRSRO, or which are of comparable quality in the judgment of the adviser);

- obligations of the United States;

- notes, bonds, and discount notes of the following U.S. government agencies or instrumentalities: Federal Home Loan Banks, Federal National Mortgage Association, Government National Mortgage Association, Banks for Cooperatives, Farm Credit Banks, Tennessee Valley Authority, Export-Import Bank of the United States, Commodity Credit Corporation, Federal Financing Bank, Student Loan Marketing Association, Federal Home Loan Mortgage Corporation, or National Credit Union Administration;

- asset-backed securities;

- commercial paper which matures in 270 days or less;

- time and savings deposits (including certificates of deposit) in commercial or savings banks whose accounts are insured by the Bank Insurance Fund ("BIF"), or in institutions whose accounts are insured by the Savings Association Insurance Fund ("SAIF"), including certificates of deposit issued by, and other time deposits in, foreign branches of BIF-insured banks which, if negotiable, mature in six months or less or if not negotiable, either mature in ninety days or less, or are withdrawable upon notice not exceeding ninety days;

- bankers' acceptances issued by a BIF-insured bank, or issued by the bank's Edge Act subsidiary and guaranteed by the bank, with remaining maturities of nine months or less. The total acceptances of any bank held by the Fund cannot exceed 0.25% of such bank's total deposits according to the bank's last published statement of condition preceding the date of acceptance;

- preferred stock and other equity-related securities which generally have bond-like attributes, including zero coupon and/or convertible securities;

- other securities which are deemed by the Fund's investment adviser to be consistent with the Fund's investment objective; and

- repurchase agreements collateralized by acceptable investments.

CORPORATE DEBT OBLIGATIONS. Although the Fund will invest primarily in corporate debt obligations that are rated as investment grade by a NRSRO, or are determined to be comparable quality in the judgment of the adviser, the Fund may invest up to 35% of the value of its total assets in corporate debt obligations that are not investment grade bonds, but are rated B or better by a NRSRO. Corporate debt obligations that are not determined to be investment grade are high-yield, high-risk bonds, typically subject to greater market fluctuations and greater risk of loss of income and principal due to an issuer's default. To a greater extent than investment grade bonds, lower rated bonds tend to reflect short-term corporate, economic, and market developments, as well as investor perceptions of the issuer's credit quality. In addition, lower rated bonds may be more difficult to dispose of or to value than higher-rated, lower-yielding bonds. Bonds rated "BBB" by Standard & Poor's or "Baa" by Moody's have speculative characteristics. Changes in economic conditions or other circumstances are more likely to lead to weakened capacity to make principal and interest payments than higher rated bonds. A full description of the rating categories is contained in the Appendix to the Statement of Additional Information.

U.S. GOVERNMENT OBLIGATIONS. The U.S. government obligations in which the Fund invests are either issued or guaranteed by the U.S. government, its agencies, or instrumentalities. These securities include, but are not limited to:

- direct obligations of the U.S. Treasury, such as U.S. Treasury bills, notes, and bonds; and

- notes, bonds, and discount notes of U.S. government agencies or instrumentalities, such as the Federal Farm Credit System, Federal Home Loan Banks System, Federal National Mortgage Association, Student Loan Marketing Association, and Federal Home Loan Mortgage Corporation.

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Some obligations issued or guaranteed by agencies or instrumentalities of the U.S. government, such as Government National Mortgage Association participation certificates, are backed by the full faith and credit of the U.S. Treasury. No assurances can be given that the U.S. government will provide financial support to other agencies or instrumentalities, since it is not obligated to do so. These agencies and instrumentalities are supported by:

- the issuer's right to borrow an amount limited to a specific line of credit from the U.S. Treasury;

- discretionary authority of the U.S. government to purchase certain obligations of an agency or instrumentality; or

- the credit of the agency or instrumentality.

ASSET-BACKED SECURITIES. Asset-backed securities are created by the grouping of certain governmental, government related and private loans, receivables and other lender assets into pools. Interests in these pools are sold as individual securities. Payments from the asset pools may be divided into several different tranches of debt securities, with some tranches entitled to receive regular installments of principal and interest, other tranches entitled to receive regular installments of interest, with principal payable at maturity or upon specified call dates, and other tranches only entitled to receive payments of principal and accrued interest at maturity or upon specified call dates. Different tranches of securities will bear different interest rates, which may be fixed or floating.

Because the loans held in the asset pool often may be prepaid without penalty or premium, asset-backed securities are generally subject to higher prepayment risks than most other types of debt instruments. Prepayment risks on mortgage securities tend to increase during periods of declining mortgage interest rates, because many borrowers refinance their mortgages to take advantage of the more favorable rates. Depending upon market conditions, the yield that the Fund receives from the reinvestment of such prepayments, or any scheduled principal payments, may be lower than the yield on the original mortgage security. As a consequence, mortgage securities may be a less effective means of "locking in" interest rates than other types of debt securities having the same stated maturity and may also have less potential for capital appreciation. For certain types of asset pools, such as collateralized mortgage obligations, prepayments may be allocated to one tranch of securities ahead of other tranches, in order to reduce the risk of prepayment for the other tranches.

Prepayments may result in a capital loss to the Fund to the extent that the prepaid mortgage securities were purchased at a market premium over their stated amount. Conversely, the prepayment of mortgage securities purchased at a market discount from their stated principal amount will accelerate the recognition of interest income by the Fund, which would be taxed as ordinary income when distributed to the shareholders.

The credit characteristics of asset-backed securities also differ in a number of respects from those of traditional debt securities. The credit quality of most asset-backed securities depends primarily upon the credit quality of the assets underlying such securities, how well the entity issuing the securities is

insulated from the credit risk of the originator or any other affiliated entities, and the amount and quality of any credit enhancement to such securities.

NON-MORTGAGE RELATED ASSET-BACKED SECURITIES. The Fund may invest in non-mortgage related asset-backed securities including, but not limited to, interests in pools of receivables, such as credit card and accounts receivable and motor vehicle and other installment purchase obligations and leases. These securities may be in the form of pass-through instruments or asset-backed obligations. The securities, all of which are issued by non-governmental entities and carry no direct or indirect government guarantee, are structurally similar to collateralized mortgage obligations and mortgage pass-through securities, which are described below.

MORTGAGE-RELATED ASSET-BACKED SECURITIES. The Fund may also invest in various mortgage-related asset-backed securities. These types of investments may include adjustable rate mortgage securities, collateralized mortgage obligations, real estate mortgage investment conduits, or other securities collateralized by or representing an interest in real estate mortgages (collectively, "mortgage securities"). Many mortgage securities are issued or guaranteed by government agencies.

ADJUSTABLE RATE MORTGAGE SECURITIES ("ARMS"). ARMS are pass-through mortgage securities representing interests in adjustable rather than fixed interest rate mortgages. The ARMS in which the Fund invests are issued by

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the Government National Mortgage Association ("GNMA"), the Federal National Mortgage Association ("FNMA"), and the Federal Home Loan Mortgage Corporation ("FHLMC") and are actively traded. The underlying mortgages which collateralize ARMS issued by GNMA are fully guaranteed by the Federal Housing Administration ("FHA") or Veterans Administration ("VA"), while those collateralizing ARMS issued by FHLMC or FNMA are typically conventional residential mortgages conforming to strict underwriting size and maturity constraints.

COLLATERALIZED MORTGAGE OBLIGATIONS ("CMOS"). CMOs are bonds issued by single-purpose, stand-alone finance subsidiaries or trusts of financial institutions, government agencies, investment bankers, or companies related to the construction industry. CMOs purchased by the Fund may be:

- collateralized by pools of mortgages in which each mortgage is guaranteed as to payment of principal and interest by an agency or instrumentality of the U.S. government;

- collateralized by pools of mortgages in which payment of principal and interest is guaranteed by the issuer and such guarantee is collateralized by U.S. government securities; or

- securities in which the proceeds of the issuance are invested in mortgage securities and payment of the principal and interest is supported by the credit of an agency or instrumentality of the U.S. government.

All CMOs purchased by the Fund are investment grade, as rated by a NRSRO.

REAL ESTATE MORTGAGE INVESTMENT CONDUITS ("REMICS"). REMICs are offerings of multiple class real estate mortgage-backed securities which qualify and elect treatment as such under provisions of the Internal Revenue Code. Issuers of REMICs may take several forms, such as trusts, partnerships, corporations, associations, or segregated pools of mortgages. Once REMIC status is elected and obtained, the entity is not subject to federal income taxation. Instead, income is passed

through the entity and is taxed to the person or persons who hold interests in the REMIC. A REMIC interest must consist of one or more classes of "regular interests," some of which may offer adjustable rates of interest, and a single class of "residual interests." To qualify as a REMIC, substantially all the assets of the entity must be in assets directly or indirectly secured principally by real property.

RESETS OF INTEREST. The interest rates paid on the ARMS, CMOs, and REMICs in which the Fund invests generally are readjusted at intervals of one year or less to an increment over some predetermined interest rate index. There are two main categories of indices: those based on U.S. Treasury securities and those derived from a calculated measure, such as a cost of funds index or a moving average of mortgage rates. Commonly utilized indices include the one-year and five-year constant maturity Treasury Note rates, the three-month Treasury Bill rate, the 180-day Treasury Bill rate, rates on longer-term Treasury securities, the National Median Cost of Funds, the one-month or three-month London Interbank Offered Rate (LIBOR), the prime rate of a specific bank, or commercial paper rates. Some indices, such as the one-year constant maturity Treasury Note rate, closely mirror changes in market interest rate levels. Others tend to lag changes in market rate levels and tend to be somewhat less volatile.

To the extent that the adjusted interest rate on the mortgage security reflects current market rates, the market value of an adjustable rate mortgage security will tend to be less sensitive to interest rate changes than a fixed rate debt security of the same stated maturity. Hence, adjustable rate mortgage securities which use indices that lag changes in market rates should experience greater price volatility than adjustable rate mortgage securities that closely mirror the market. Certain residual interest tranches of CMOs may have adjustable interest rates that deviate significantly from prevailing market rates, even after the interest rate is reset, and are subject to correspondingly increased price volatility. In the event the Fund purchases such residual interest mortgage securities, it will factor in the increased interest and price volatility of such securities when determining its dollar-weighted average duration.

CAPS AND FLOORS. The underlying mortgages which collateralize the ARMS, CMOs, and REMIC's in which the Fund invests will frequently have caps and floors which limit the maximum amount by which the loan rate to the residential borrower may change up or down: (1) per reset or adjustment interval, and (2) over the life of the loan. Some residential mortgage loans restrict periodic adjustments by limiting changes in the borrower's monthly principal and interest payments rather than limiting interest rate changes. These payment caps may result in negative amortization.

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The value of mortgage securities in which the Fund invests may be affected if market interest rates rise or fall faster and farther than the allowable caps or floors on the underlying residential mortgage loans. Additionally, even though the interest rates on the underlying residential mortgages are adjustable, amortization and prepayments may occur, thereby causing the effective maturities of the mortgage securities in which the Fund invests to be shorter than the maturities stated in the underlying mortgages.

BANK INSTRUMENTS. The Fund only invests in bank instruments either issued by an institution having capital, surplus and undivided profits over $100 million or insured by BIF or SAIF. Bank

instruments may include Eurodollar Certificates of Deposit ("ECDs"), Yankee Certificates of Deposit ("Yankee CDs") and Eurodollar Time Deposits ("ETDs").

ZERO COUPON CONVERTIBLE SECURITIES. Zero coupon convertible securities are debt securities which are issued at a discount to their face amount and do not entitle the holder to any periodic payments of interest prior to maturity. Rather, interest earned on zero coupon convertible securities accretes at a stated yield until the security reaches its face amount at maturity. Zero coupon convertible securities are convertible into a specific number of shares of the issuer's common stock. In addition, zero coupon convertible securities usually have put features that provide the holder with the opportunity to put the bonds back to the issuer at a stated price before maturity. Generally, the prices of zero coupon convertible securities may be more sensitive to market interest rate fluctuations than conventional convertible securities.

Federal income tax law requires the holder of a zero coupon convertible security to recognize income with respect to the security prior to the receipt of cash payments. To maintain its qualification as a regulated investment company and avoid liability of federal income taxes, the Fund will be required to distribute income accrued with respect to zero coupon convertible securities which it owns, and may have to sell portfolio securities (perhaps at disadvantageous times) in order to generate cash to satisfy these distribution requirements.

RESTRICTED AND ILLIQUID SECURITIES. The Fund intends to invest in restricted securities. Restricted securities are any securities in which the Fund may otherwise invest pursuant to its investment objective and policies, but which are subject to restriction on resale under federal securities law. However, the Fund will limit investments in illiquid securities, including certain restricted securities determined by the Board of Directors to be illiquid, non-negotiable time deposits, unlisted options, and repurchase agreements providing for settlement in more than seven days after notice, to 15% of its net assets.

The Fund may invest in commercial paper issued in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933. Section 4(2) commercial paper is restricted as to disposition under the federal securities law, and is generally sold to institutional investors, such as the Fund, who agree that they are purchasing the paper for investment purposes and not with a view to public distribution. Any resale by the purchaser must be in an exempt transaction. Section 4(2) commercial paper is normally resold to other institutional investors like the Fund through or with the assistance of the issuer or investment dealers who make a market in Section 4(2) commercial paper, thus providing liquidity. The Fund believes that Section 4(2) commercial paper and possibly certain other restricted securities which meet the criteria for liquidity established by the Board of Directors of the Corporation are quite liquid. The Fund intends, therefore, to treat the restricted securities which meet the criteria for liquidity established by the Directors, including Section 4(2) commercial paper, as determined by the Fund's investment adviser, as liquid and not subject to the investment limitations applicable to illiquid securities.

FOREIGN SECURITIES. The Fund reserves the right to invest up to 10% of its total assets in fixed income securities of foreign corporations or governmental units and to purchase or sell various currencies on either a spot or forward basis in connection with these investments. Investments in foreign securities, particularly those of non-governmental issuers, involve considerations which are not ordinarily

associated with investments in domestic issuers. These considerations include the possibility of expropriation, the unavailability of financial information or the difficulty of interpreting financial information prepared under foreign accounting standards, less liquidity and more volatility in foreign securities markets, the impact of political, social, or diplomatic developments, and the

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difficulty of assessing economic trends in foreign countries. It may also be more difficult to enforce contractual obligations abroad than would be the case in the United States because of differences in the legal systems. Transaction costs in foreign securities may be higher. The Fund's investment adviser will consider these and other factors before investing in foreign securities and will not make such investments unless, in its opinion, such investments will meet the Fund's standards and objectives.

INVESTING IN SECURITIES OF OTHER INVESTMENT COMPANIES. The Fund may invest in the securities of other investment companies, but it will not own more than 3% of the total outstanding voting stock of any investment company, invest more than 5% of its total assets in any one investment company, or invest more than 10% of its total assets in investment companies in general. The Fund will only invest in other investment companies that are money market funds having an investment objective and policies similar to its own and primarily for the purpose of investing short-term cash which has not yet been invested in other portfolio instruments. The investment adviser to the Fund will waive its investment advisory fee on assets invested in securities of open-end investment companies.

TEMPORARY INVESTMENTS. The Fund may also invest temporarily in cash and cash items during times of unusual market conditions for defensive purposes and to maintain liquidity. The Fund considers instruments issued by a U.S. branch of a domestic bank having capital, surplus and undivided profits in excess of $100,000,000 at the time of investment to be "cash items."

REPURCHASE AGREEMENTS. Repurchase agreements are arrangements in which banks, broker/dealers, and other recognized financial institutions sell U.S. government securities or certificates of deposit to the Fund and agree at the time of sale to repurchase them at a mutually agreed upon time and price. To the extent that the original seller does not repurchase the securities from the Fund, the Fund could receive less than the repurchase price on any sale of such securities.

WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS. The Fund may purchase securities on a when-issued or delayed delivery basis. In when-issued and delayed delivery transactions, the Fund relies on the seller to complete the transaction. The seller's failure to complete the transaction may cause the Fund to miss a price or yield considered to be advantageous.

LENDING OF PORTFOLIO SECURITIES. In order to generate additional income, the Fund may lend portfolio securities on a short-term or long-term basis up to one-third of the value of its total assets to broker/dealers, banks, or other institutional borrowers of securities. The Fund will only enter into loan arrangements with broker/dealers, banks, or other institutions which the investment adviser has determined are creditworthy under guidelines established by the Fund's Board of Directors and will receive collateral in the form of cash or U.S. government securities equal to at least 100% of the value of the securities loaned.

PUT AND CALL OPTIONS. The Fund may purchase put options on financial futures contracts and put options on portfolio securities. Financial futures may include index futures. These options will be used as a hedge to attempt to protect securities which the Fund holds against decreases in value. For the immediate future, the Fund will enter into futures contracts directly only when it desires to exercise a

financial futures put option in its portfolio rather than either closing out the option or allowing it to expire. The Fund will only purchase puts on financial futures contracts which are traded on a nationally recognized exchange.

The Fund will generally purchase over-the-counter put options on portfolio securities in negotiated transactions with the writers of the options since options on the portfolio securities held by the Fund are typically not traded on an exchange. The Fund purchases options only from investment dealers and other financial associations (such as commercial banks or savings and loan institutions) deemed creditworthy by the Fund's adviser.

In general, over-the-counter put options differ from exchange traded put options in the following respects. Over-the-counter put options are two party contracts with price and terms negotiated between buyer and seller, and such options are endorsed and/or guaranteed by third parties (such as a New York Stock Exchange member). Additionally, over-the-counter strike prices are adjusted to reflect dividend payments, initial strike prices are generally set at market, and option premiums (which are all time premiums) are amortized on a straight line basis over the life of the option. In contrast, exchange traded options are third-party contracts with standardized strike prices and expiration dates and are purchased from the Clearing Corporation. Strike prices are not adjusted for dividends, and options are marked to market, thereby obviating the need to

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amortize the time premium. Exchange traded options have a continuous liquid market while over-the-counter options do not.

The Fund may also write call options on all or any portion of its portfolio to generate income for the Fund. The Fund will write call options on securities either held in its portfolio or which it has the right to obtain without payment of further consideration or for which it has segregated cash in the amount of any additional consideration. The call options which the Fund writes and sells must be listed on a recognized options exchange. Although the Fund reserves the right to write covered call options on its entire portfolio, it will not write such options on more than 25% of its total assets unless a higher limit is authorized by its Directors.

The Fund may attempt to hedge the portfolio by entering into financial futures contracts and to write calls on financial futures contracts.

RISKS. When the Fund writes a call option, the Fund risks not participating in any rise in the value of the underlying security. In addition, when the Fund purchases puts on financial futures contracts to protect against declines in prices of portfolio securities, there is a risk that the prices of the securities subject to the futures contracts may not correlate perfectly with the prices of the securities in the Fund's portfolio. This may cause the futures contract and its corresponding put to react differently than the portfolio securities to market changes. In addition, the Fund's investment adviser could be incorrect in its expectations about the direction or extent of market factors such as interest rate movements. In such an event, the Fund may lose the purchase price of the put option. Finally, it is not certain that a secondary market for options will exist at all times. Although the investment adviser will consider liquidity before entering into option transactions, there is no assurance that a liquid secondary market on an exchange will exist for any particular option or at any particular time. The Fund's ability to establish and close out option positions depends on this secondary market.

INVESTMENT LIMITATIONS

The Fund will not:

- borrow money directly or through reverse repurchase agreements (arrangements in which the Fund sells a portfolio instrument for a percentage of its cash value with an agreement to buy it back on a set date) or pledge securities except, under certain circumstances, the Fund may borrow up to one-third of the value of its total assets and pledge up to 10% of the value of those assets to secure such borrowings.

- lend any of its assets except portfolio securities up to one-third of the value of its total assets;

- sell securities short except, under strict limitations, it may maintain open short positions so long as not more than 10% of the value of its net assets is held as collateral for those positions; nor

- with respect to 75% of the value of its total assets, invest more than 5% in securities of any one issuer other than cash, cash items or securities issued or guaranteed by the government of the United States, its agencies, or instrumentalities and repurchase agreements collateralized by such securities. (For purposes of this limitation, the Fund considers instruments issued by a U.S. branch of a domestic bank having capital, surplus and undivided profits in excess of $100,000,000 at the time of investment to be "cash items.")

The above investment limitations cannot be changed without shareholder approval. The following investment limitation, however, may be changed by the Directors without shareholder approval. Shareholders will be notified before any material change in this investment limitation becomes effective.

The Fund will not:

- invest more than 5% of the value of its total assets in securities of issuers that have records of less than three years of continuous operations including the operation of any predecessor.

NET ASSET VALUE

The Fund's net asset value per share fluctuates. It is determined by dividing the sum of the market value of all securities and all other assets, less liabilities, by the number of shares outstanding.

INVESTING IN THE FUND

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SHARE PURCHASES

Fund shares are sold on days on which the New York Stock Exchange is open. Shares of the Fund may be purchased through an investment dealer who has a sales agreement with the distributor, Federated Securities Corp., or directly from Federated Securities Corp. once an account has been established, either by mail or wire. The Fund reserves the right to reject any purchase request.

THROUGH A FINANCIAL INSTITUTION. An investor may call his financial institution (such as a bank or an investment dealer) to place an order to purchase shares of the Fund. Orders through a financial institution are considered received when the Fund is notified of the purchase order. Purchase orders

through a registered broker/dealer must be received by the broker before 4:00 p.m. (Boston time) and must be transmitted by the broker to the Fund before 5:00 p.m. (Boston time) in order for shares to be purchased at that day's price. Purchase orders through other financial institutions must be received by the financial institution and transmitted to the Fund before 4:00 p.m. (Boston time) in order for shares to be purchased at that day's price. It is the financial institution's responsibility to transmit orders promptly.

DIRECTLY BY MAIL. To purchase shares of the Fund by mail directly from Federated Securities Corp.:

- complete and sign the application available from the Fund;
- enclose a check made payable to Fortress Bond Fund; and
- send both to the Fund's transfer agent, State Street Bank and Trust Company, P.O. Box 8604, Boston, Massachusetts 02266-8604.

Purchases by mail are considered received after payment by check is converted by State Street Bank into federal funds. This is generally the next business day after State Street Bank receives the check.

DIRECTLY BY WIRE. To purchase shares of the Fund directly from Federated Securities Corp. by Federal Reserve wire, call the Fund. All information needed will be taken over the telephone, and the order is considered received when State Street Bank receives payment by wire.

MINIMUM INVESTMENT REQUIRED

The minimum initial investment in the Fund is $1,500, except for an IRA account, which requires a minimum initial investment of $50. Subsequent investments must be in amounts of at least $100, except for an IRA account, which must be in amounts of at least $50.

WHAT SHARES COST

Fund shares are sold at their net asset value next determined after an order is received, plus a sales charge of 1% of the offering price (which is 1.01% of the net amount invested). There is no sales charge for purchases of $1 million or more. In addition, no sales charge is imposed for Fund shares purchased through bank trust departments or investment advisers registered under the Investment Advisers Act of 1940 purchasing on behalf of their clients, or by sales representatives, Directors, and employees of the Fund, Federated Advisers, and Federated Securities Corp., or their affiliates, or any investment dealer who has a sales agreement with Federated Securities Corp., their spouses and children under age 21, or any trusts or pension or profit-sharing plans for these persons. Unaffiliated institutions through whom shares are purchased may charge fees for services provided which may be related to the ownership of Fund shares. This prospectus should, therefore, be read together with any agreement between the customer and the institution with regard to services provided, the fees charged for these services, and any restrictions and limitations imposed.

The net asset value is determined at 4:00 p.m. (Boston time), Monday through Friday, except on: (i) days on which there are not sufficient changes in the value of the Fund's portfolio securities that its net asset value might be materially affected; (ii) days during which no shares are tendered for redemption and no orders to purchase shares are received; and (iii) the following holidays: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

Under certain circumstances described under "Redeeming Shares," shareholders may be charged a redemption fee by the distributor at the time shares are redeemed.

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DEALER CONCESSION. For sales of shares of the Fund, broker/dealers will normally receive 100% of the applicable sales charge. Any portion of the sales charge which is not paid to a broker/dealer will be retained by the distributor. However, from time to time, and at the sole discretion of the distributor, all or part of that portion may be paid to a dealer. The sales charge for shares sold other than through registered broker/dealers will be retained by Federated Securities Corp. Federated Securities Corp. may pay fees to banks out of the sales charge in exchange for sales and/or administrative services performed on behalf of the bank's customers in connection with the initiation of customer accounts and purchases of Fund shares.

ELIMINATING THE SALES CHARGE

The sales charge can be eliminated on the purchase of Fund shares through:

- quantity discounts and accumulated purchases;

- signing a 13-month letter of intent;

- using the reinvestment privilege; or

- concurrent purchases.

QUANTITY DISCOUNTS AND ACCUMULATED PURCHASES. There is no sales charge for purchases of $1 million or more. The Fund will combine purchases made on the same day by the investor, his spouse, and his children under age 21 when it calculates the sales charge.

If an additional purchase of Fund shares is made, the Fund will consider the previous purchases still invested in the Fund. For example, if a shareholder already owns shares having a current value at the public offering price of $900,000, and he purchases $100,000 or more at the current public offering price, there will be no sales charge on the additional purchase.

The Fund will also combine purchases for the purpose of reducing the redemption fee imposed on some share redemptions. For example, if a shareholder already owns shares of the Fund having a current value at public offering price of $1 million and purchases an additional $1 million at the current public offering price, the applicable redemption fee would be reduced to .50% of those additional shares. For more information on the levels of redemption fees and holding periods, see the section entitled "Redemption Fee."

To receive the sales charge elimination and/or the redemption fee reduction, Federated Securities Corp. must be notified by the shareholder in writing or by their financial institution at the time the purchase is made that Fund shares are already owned or that purchases are being combined. The Fund will eliminate the sales charge and/or reduce the redemption fee after it confirms the purchases.

LETTER OF INTENT. If a shareholder intends to purchase at least $1 million of Fund shares over the next 13 months, the sales charge may be eliminated by signing a letter of intent to that effect. This letter of intent includes a provision for a sales charge elimination depending on the amount actually purchased within the 13-month period and a provision for the Fund's custodian to hold 1% of the total amount intended to be purchased in escrow (in shares of the Fund) until such purchase is completed.

The 1% held in escrow will be applied to the shareholder's account at the end of the 13-month period unless the amount specified in the letter of intent, which must be $1 million or more of Fund shares, is not purchased. In this event, an appropriate number of escrowed shares may be redeemed in order to realize the 1% sales charge.

This letter of intent also includes a provision for reductions in the redemption fee and holding period depending on the amount actually purchased within the 13-month period. For more information on the various levels of redemption fees and holding periods, see the section entitled "Redemption Fee."

This letter of intent will not obligate the shareholder to purchase shares. The letter may be dated as of a prior date to include any purchases made within the past 90 days.

REINVESTMENT PRIVILEGE. If shares have been redeemed in the Fund, the shareholder has a one-time right, within 30 days, to reinvest the redemption proceeds at the next-determined net asset value without any sales charge. Federated Securities Corp. must be notified by the shareholder in writing or by his financial institution of the reinvestment in order to receive this elimination of the sales charge. If the shareholder redeems his shares in the Fund, there may be tax consequences.

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CONCURRENT PURCHASES. For purposes of qualifying for a sales charge elimination, a shareholder has the privilege of combining concurrent purchases of two or more funds in the Fortress Investment Program, the purchase prices of which include a sales charge. For example, if a shareholder concurrently invested $400,000 in one of the other Fortress Funds and $600,000 in the Fund, the sales charge would be eliminated.

To receive this sales charge elimination, Federated Securities Corp. must be notified by the shareholder in writing or by his financial institution at the time the concurrent purchases are made. The Fund will eliminate the sales charge after it confirms the purchases.

SYSTEMATIC INVESTMENT PROGRAM

Once a Fund account has been opened, shareholders may add to their investment on a regular basis in amounts of not less than $100 per transaction. Under this program, funds may be automatically withdrawn monthly from the shareholder's checking account and invested in Fund shares at the net asset value next determined after an order is received by the transfer agent, plus the 1% sales charge for purchases under $1 million. A shareholder may apply for participation in this program through Federated Securities Corp.

EXCHANGE PRIVILEGE

Shares in other Fortress Funds may be exchanged for Fund shares at net asset value without a sales charge (if previously paid) or a redemption fee.

Shares in certain of the Funds (as defined in the Statement of Additional Information) which are advised by subsidiaries or affiliates of Federated Investors may also be exchanged for Fund shares at net asset value (plus a sales charge, if applicable). Shareholders using this privilege must exchange shares having a net asset value of at least $1,500. This privilege is available to shareholders who reside in any state in which the fund shares being acquired may be sold. Further information on the exchange privilege is available by calling Federated Securities Corp.

CERTIFICATES AND CONFIRMATIONS

As transfer agent for the Fund, Federated Services Company maintains a share account for each shareholder. Share certificates are not issued unless requested on the application or by contacting the Fund.

Detailed confirmations of each purchase or redemption are sent to each shareholder. Monthly statements are sent to report dividends paid during the month.

DIVIDENDS AND DISTRIBUTIONS

Dividends are declared and paid monthly to all shareholders invested in the Fund on the record date. Distributions of any net realized long-term capital gains will be made at least once every twelve months. Dividends and distributions are automatically reinvested in additional shares of the Fund on payment dates at the ex-dividend date net asset value without a sales charge unless cash payments are requested by shareholders on the application or by writing to Federated Securities Corp.

RETIREMENT PLANS

Shares of the Fund can be purchased as an investment for retirement plans (including 401(k) and 403(b) plans) or for IRA accounts. For further details, including prototype retirement plans, contact Federated Securities Corp. and consult a tax adviser.

REDEEMING SHARES
- ---

The Fund redeems shares at their net asset value next determined after the transfer agent receives the redemption request. Redemptions will be made on days on which the Fund computes its net asset value. Redemption requests must be received in proper form and can be made through a financial institution, or directly from the Fund by written request.

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THROUGH A FINANCIAL INSTITUTION

A shareholder may redeem shares of the Fund by calling his financial institution (such as a bank or an investment dealer) to request the redemption. Shares will be redeemed at the net asset value next determined after the Fund receives the redemption request from the financial institution. Redemption requests through a registered broker/dealer must be received by the broker before 4:00 p.m. (Boston time) and must be transmitted by the broker to the Fund before 5:00 p.m. (Boston time) in order for shares to be redeemed at that day's net asset value. Redemption requests through other financial institutions must be received by the financial institution and transmitted to the Fund before 4:00 p.m. (Boston time) in order for shares to be redeemed at that day's net asset value. The financial institution is responsible for promptly submitting redemption requests and providing proper written redemption instructions to the Fund. The financial institution may charge customary fees and commissions for this service. If, at any time, the Fund shall determine it necessary to terminate or modify this method of redemption, shareholders will be promptly notified.

Before a financial institution may request redemption by telephone on behalf of a shareholder, an authorization form permitting the Fund to accept redemption requests by telephone must first be completed. Telephone redemption instructions may be recorded. If reasonable procedures are not followed by the Fund, it may be liable for losses due to unauthorized or fraudulent telephone instructions. In the event of drastic economic or market changes, a shareholder may experience difficulty in redeeming by telephone. If such a case should occur, another method of redemption, such as "Directly by Mail," should be considered.

DIRECTLY BY MAIL

Shareholders may also redeem shares by sending a written request to the transfer agent. This written request must include the shareholder's name, the Fund name, the Fund account number, and the share or dollar amount to be redeemed. Shares will be redeemed at their net asset value next determined after the transfer agent receives the redemption request.

If share certificates have been issued, they must be properly endorsed and should be sent by registered or certified mail with the written request. Shareholders may call the Fund for assistance in redeeming by mail.

SIGNATURES. Shareholders requesting a redemption of $50,000 or more, a redemption of any amount to be sent to an address other than that on record with the Fund, or a redemption payable other than to the shareholder of record must have signatures on written redemption requests guaranteed by:

- a trust company or commercial bank whose deposits are insured by the BIF, which is administered by the Federal Deposit Insurance Corporation ("FDIC");
- a member of the New York, American, Boston, Midwest, or Pacific Stock Exchanges;
- a savings bank or savings and loan association whose deposits are insured by the SAIF, which is administered by the FDIC; or
- any other "eligible guarantor institution," as defined in the Securities Exchange Act of 1934.

The Fund does not accept signatures guaranteed by a notary public.

The Fund and its transfer agent have adopted standards for accepting signature guarantees from the above institutions. The Fund may elect in the future to limit eligible signature guarantors to institutions that are members of a signature guarantee program. The Fund and its transfer agent reserve the right to amend these standards at any time without notice.

RECEIVING PAYMENT. A check for the proceeds is mailed within seven days after receipt of proper written redemption instructions from a broker or from the shareholder.

REDEMPTION FEE

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Shareholders redeeming shares from their Fund accounts within certain time periods of the purchase date of those shares will be charged a redemption fee by the Fund's distributor of the lesser of the original price or the net asset value of the shares redeemed as follows:

<TABLE>
<CAPTION>

AMOUNT OF PURCHASE	SHARES HELD	REDEMPTION FEE
<S>	<C>	<C>
Up to $1,999,999	less than 4 years	1%
$2,000,000 to $4,999,999	less than 2 years	.50%
$5,000,000 or more	less than 1 year	.25%

</TABLE>

In instances in which Fund shares have been acquired in exchange for shares in other Fortress Funds, (i) the purchase price is the price of the shares when originally purchased and (ii) the time period during which the shares are held will run from the date of the original purchase. The redemption fee will not be imposed on shares acquired through: (i) the reinvestment of dividends or distributions of long-term capital gains; or (ii) the exchange of shares of Government Income Securities, Inc. where those shares were purchased during that Fund's Charter Offering Period. In computing the amount of redemption fee for accounts with shares subject to a single holding period, if any, redemptions are deemed to have occurred first of shares acquired through the reinvestment of dividends and long-term capital gains, second of purchases of shares occurring prior to the number of years necessary to satisfy the applicable holding period, and finally of purchases of shares occurring within the current holding period. For accounts with shares subject to multiple share holding periods, the redemption sequence will be determined first, with reinvested dividends and long-term capital gains, and second, on a first-in, first-out basis.

The redemption fee will not be imposed when a redemption results from a return under the following circumstances: (i) a total or partial distribution from a qualified plan, other than an IRA, Keogh Plan, or a custodial account, following retirement; (ii) a total or partial distribution from an IRA, Keogh Plan, or a custodial account, after the beneficial owner attains age 59 1/2; or (iii) from the death or disability of the beneficial owner. The exemption from the redemption fee for qualified plans, an IRA, Keogh Plan, or a custodial account does not extend to account transfers, rollovers, and other redemptions made for purposes of reinvestment. Redemption fees are not charged in connection with exchanges of shares for shares in other Fortress Funds or in connection with redemptions by the Fund of accounts with low balances.

SYSTEMATIC WITHDRAWAL PROGRAM

Shareholders who desire to receive monthly or quarterly payments of a predetermined amount may take advantage of the Systematic Withdrawal Program. Under this program, Fund shares are redeemed to provide for periodic withdrawal payments in an amount directed by the shareholder, of not less than $100 per transaction. Depending upon the amount of the withdrawal payments, the amount of dividends paid and capital gains distributions with respect to Fund shares, and the fluctuation of the net asset value of Fund shares redeemed under this program, redemptions may reduce, and eventually use up, the shareholder's investment in the Fund. For this reason, payments under this program should not be considered as yield or income on the shareholder's investment in the Fund. To be eligible to participate in this program, a shareholder must have invested at least $10,000 in the Fund (at current offering price).

A shareholder may apply for participation in this program through Federated Securities Corp. Due to the fact that shares are sold with a sales charge, it is not advisable for shareholders to be purchasing shares while participating in this program.

Redemption fees are charged for shares redeemed through this program within four years of their purchase dates.

REDEMPTION BEFORE PURCHASE INSTRUMENTS CLEAR

When shares are purchased by check, the proceeds from the redemption of those shares are not available, and the shares may not be exchanged, until the Fund or its agents are reasonably certain that the purchase check has cleared, which could take up to ten calendar days.

ACCOUNTS WITH LOW BALANCES

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Due to the high cost of maintaining accounts with low balances, the Fund may redeem shares in any account, except retirement plans, and pay the proceeds to the shareholder if the account balance falls below a required minimum value of $1,000 due to shareholder redemptions. This requirement does not apply, however, if the balance falls below $1,000 because of changes in the Fund's net asset value. Before shares are redeemed to close an account, the shareholder is notified in writing and allowed 30 days to purchase additional shares to meet the minimum requirement.

EXCHANGES FOR SHARES OF OTHER FUNDS

Fund shares may be exchanged for shares in other Fortress Funds at net asset value without a redemption fee or a sales charge.

Fund shares may also be exchanged for shares in certain of the Funds which are advised by subsidiaries or affiliates of Federated Investors at net asset value. However, such exchanges will be subject to a redemption fee and possibly a sales charge. Before the exchange, a shareholder must receive a prospectus of the Fund for which the exchange is being made.

Shareholders using this privilege must exchange shares having a net asset value of at least $1,500. Further information on the exchange privilege and prospectuses for other Fortress Funds and the Funds are available by calling Federated Securities Corp.

INVESTMENT SERIES FUNDS, INC., INFORMATION
- ----------

MANAGEMENT OF THE CORPORATION

BOARD OF DIRECTORS. The Corporation is managed by a Board of Directors. The Directors are responsible for managing the Corporation's business affairs and for exercising all the Corporation's powers except those reserved for the shareholders. The Executive Committee of the Board of Directors handles the Directors' responsibilities between meetings of the Directors.

INVESTMENT ADVISER. Investment decisions for the Fund are made by Federated Advisers, the Fund's investment adviser, subject to direction by the Directors. The adviser continually conducts investment research and supervision for the Fund and is responsible for the purchase or sale of portfolio instruments, for which it receives an annual fee from the Fund.

ADVISORY FEES. The Fund's adviser receives an annual investment advisory fee equal to .75 of 1% of the Fund's average daily net assets. The fee paid by the Fund, while higher than the advisory fee paid by other mutual funds in general, is comparable to fees paid by many mutual funds with similar objectives and policies. Under the investment advisory contract, which provides for voluntary waivers of expenses by the adviser, the adviser may voluntarily waive some or all of the

advisory fee. The adviser can terminate this voluntary waiver of some or all of its advisory fee at any time at its sole discretion. The adviser has also undertaken to reimburse the Fund for operating expenses in excess of limitations established by certain states.

ADVISER'S BACKGROUND. Federated Advisers, a Delaware business trust organized on April 11, 1989, is a registered investment adviser under the Investment Advisers Act of 1940. It is a subsidiary of Federated Investors. All of the Class A (voting) shares of Federated Investors are owned by a trust, the Trustees of which are John F. Donahue, Chairman and Trustee of Federated Investors, Mr. Donahue's wife, and Mr. Donahue's son, J. Christopher Donahue, who is President and Trustee of Federated Investors.

Federated Advisers and other subsidiaries of Federated Investors serve as investment advisers to a number of investment companies and private accounts. Certain other subsidiaries also provide administrative services to a number of investment companies. Total assets under management or administration by these and other subsidiaries of Federated Investors are approximately $70 billion. Federated Investors, which was founded in 1956 as Federated Investors, Inc., develops and manages mutual funds primarily for the financial industry. Federated Investors' track record of competitive performance and its disciplined, risk averse investment

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philosophy serve approximately 3,500 client institutions nationwide. Through these same client institutions, individual shareholders also have access to this same level of investment expertise.

Mark E. Durbiano has been the Fund's portfolio manager since June, 1992. Mr. Durbiano joined Federated Investors in 1982 and has been a Vice President of the Fund's investment adviser since 1988. Mr. Durbiano is a Chartered Financial Analyst and received his M.B.A. in Finance from the University of Pittsburgh.

Joseph M. Balestrino has been the Fund's co-portfolio manager since September, 1993. Mr. Balestrino joined Federated Investors in 1986 and has been an Assistant Vice President of the Fund's investment adviser since 1991. Mr. Balestrino served as an Investment Analyst of the investment adviser from 1989 until 1991, and from 1986 until 1989 he acted as Project Manager in the Product Development Department. Mr. Balestrino is a Chartered Financial Analyst and received his M.V.R.P. in Urban and Regional Planning from the University of Pittsburgh.

DISTRIBUTION OF FUND SHARES

Federated Securities Corp. is the principal distributor for shares of the Fund. It is a Pennsylvania corporation organized on November 14, 1969, and is the principal distributor for a number of investment companies. Federated Securities Corp. is a subsidiary of Federated Investors.

ADMINISTRATION OF THE FUND

ADMINISTRATIVE SERVICES. Federated Administrative Services, Inc., which is a subsidiary of Federated Investors, provides the Fund with the administrative personnel and services necessary to operate the Fund. Such services include shareholder servicing and certain legal and accounting services. Federated Administrative Services, Inc., provides these at approximate cost.

SHAREHOLDER SERVICES PLAN. Effective April 1, 1993, the Fund has adopted a Shareholder Services Plan (the "Services Plan") with respect to Fund shares. Under the Services Plan, financial institutions

will enter into shareholder service agreements with the Fund to provide administrative support services to their customers who from time to time may be owners of record or beneficial owners of shares. In return for providing these support services, a financial institution may receive payments from the Fund at a rate not exceeding 0.25% of the average daily net assets of the shares beneficially owned by the financial institution's customers for whom it is holder of record or with whom it has a servicing relationship. These administrative services may include, but are not limited to, the following functions: providing office space, equipment, telephone facilities, and various personnel, including clerical, supervisory, and computer, as necessary or beneficial to establish and maintain shareholder accounts and records; processing purchase and redemption transactions and automatic investments of client account cash balances; answering routine client inquiries regarding the Fund; assisting clients in changing dividend options, account designations, and addresses; and providing such other services as the Fund reasonably requests.

In addition to receiving payments under the Services Plan, financial institutions may be compensated by the distributor, or affiliates thereof, for providing administrative support services to holders of Fund shares. These payment will be made directly by the distributor and will not be made from the assets of the Fund.

CUSTODIAN. State Street Bank and Trust Company ("State Street Bank"), Boston, Massachusetts, is custodian for the securities and cash of the Fund.

TRANSFER AGENT AND DIVIDEND DISBURSING AGENT. Federated Services Company, Pittsburgh, Pennsylvania, is transfer agent for the shares of the Fund, and dividend disbursing agent for the Fund.

LEGAL COUNSEL. Legal counsel is provided by Houston, Houston & Donnelly, Pittsburgh, Pennsylvania, and Dickstein, Shapiro & Morin, Washington, D.C.

INDEPENDENT AUDITORS. The independent auditors for the Fund are Ernst & Young,

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Pittsburgh, Pennsylvania.

EXPENSES OF THE FUND

The Fund pays all of its own expenses and its allocable share of Corporation expenses. These expenses include, but are not limited to, the cost of: Directors' fees; investment advisory and administrative services; printing prospectuses and other Fund documents for shareholders; registering the Corporation, the Fund, and shares of the Fund with federal and state securities commissions; taxes and commissions; issuing, purchasing, repurchasing, and redeeming shares; fees for custodians, transfer agents, dividend disbursing agents, shareholder servicing agents, and registrars; printing, mailing, auditing, accounting, and legal expenses; reports to shareholders and governmental agencies; meetings of Directors and shareholders and proxy solicitations therefor; insurance premiums; association membership dues; and such nonrecurring and extraordinary items as may arise. However, the adviser may voluntarily reimburse some expenses and has, in addition, undertaken to reimburse the Fund, up to the amount of the advisory fee, the amount by which operating expenses exceed limitations imposed by certain states.

SHAREHOLDER INFORMATION

VOTING RIGHTS

Each share of the Fund gives the shareholder one vote in Director elections and other matters submitted to shareholders for vote. All shares of each portfolio or class in the Corporation have equal voting rights, except that only shares of a particular portfolio or class are entitled to vote on matters affecting that portfolio or class.

As a Maryland corporation, the Corporation is not required to hold annual shareholder meetings. Shareholder approval will be sought only for certain changes in the Fund's operation and for the election of Directors under certain circumstances.

Directors may be removed by a two-thirds vote of the number of Directors prior to such removal or by a two-thirds vote of the shareholders at a special meeting. The Directors shall call a special meeting of shareholders upon the written request of shareholders owning at least 10% of the Corporation's outstanding shares entitled to vote.

TAX INFORMATION

FEDERAL INCOME TAX

The Fund will pay no federal income tax because it expects to meet requirements of the Internal Revenue Code, as amended, applicable to regulated investment companies and to receive the special tax treatment afforded to such companies.

The Fund will be treated as a single, separate entity for federal income tax purposes so that income (including capital gains) and losses realized by the Corporation's other portfolios, if any, will not be combined for tax purposes with those realized by the Fund.

Unless otherwise exempt, shareholders of the Fund are required to pay federal income tax on any dividends and other distributions, including capital gains distributions, received. This applies whether dividends and distributions are received in cash or as additional shares. Distributions representing long-term capital gains, if any, will be taxable to shareholders as long-term capital gains no matter how long the shareholders have held the shares. No federal income tax is due on any distributions earned in an IRA or qualified retirement plan until distributed, so long as such IRA or qualified retirement plan meets the applicable requirements of the Internal Revenue Code, as amended.

PENNSYLVANIA CORPORATE AND PERSONAL PROPERTY TAXES

In the opinion of Houston, Houston & Donnelly, counsel to the Corporation:

- The Fund is subject to the Pennsylvania corporate franchise tax; and

- Fund shares are exempt from personal property taxes imposed by counties, municipalities, and school districts in Pennsylvania.

Shareholders are urged to consult their own tax advisers regarding the status of their accounts under state and local tax laws.

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PERFORMANCE INFORMATION

From time to time the Fund advertises its total return and yield.

Total return represents the change, over a specific period of time, in the value of an investment in the Fund after reinvesting all income and capital gain distributions. It is calculated by dividing that change by the initial investment and is expressed as a percentage.

The yield of the Fund is calculated by dividing the net investment income per share (as defined by the Securities and Exchange Commission) earned by the Fund over a thirty-day period by the maximum offering price per share of the Fund on the last day of the period. This number is then annualized using semi-annual compounding. The yield does not necessarily reflect income actually earned by the Fund and, therefore, may not correlate to the dividends or other distributions paid to shareholders.

The performance information reflects the effect of the maximum sales load and other similar non-recurring charges, such as the redemption fee, which, if excluded, would increase the total return and yield.

From time to time, the Fund may advertise its performance using certain reporting services and/or compare its performance to certain indices.

FORTRESS BOND FUND

PORTFOLIO OF INVESTMENTS
OCTOBER 31, 1993

<TABLE>
<CAPTION>

PRINCIPAL AMOUNT		VALUE
<C>	<S>	<C>
CORPORATE BONDS--85.3%		
	AIR TRANSPORTATION--1.7%	
$1,000,000	AMR Corp., Deb., 9.75%, 8/15/2021	$ 1,159,110

</TABLE>

<TABLE>

<C>	<S>	<C>
1,000,000	USAir, Inc., Sr. Note, 10.375%, 3/1/2013	1,015,000
	Total	2,174,110
	AUTOMOTIVE--3.7%	
1,000,000	Auburn Hills, 12.375%, 5/1/2020	1,545,000
1,000,000	Chrysler Corp., Note, 10.40%, 8/1/99	1,155,000
1,000,000	Ford Motor Co., 9.90%, 11/6/97	1,166,990
750,000	Motor Wheel Corp., Sr. Note, 11.50%, 3/1/2000	821,250
	Total	4,688,240
	BROADCAST RADIO & TV--3.2%	
500,000	Allbritton Communication Co., Sr. Sub. Note, 11.50%, 8/15/2004	532,500
2,000,000	CBS Inc., Sr. Deb., 8.875%, 6/1/2022	2,372,900
1,000,000	SCI Television, Inc., Sr. Sec. Note, 11.00%, 6/30/2005	1,045,000
	Total	3,950,400
	BUSINESS EQUIPMENT & SERVICES--0.5%	
500,000	Anacomp, Inc., Sr. Sub. Note, 15.00%, 11/1/2000	578,125

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	CABLE TV--4.5%	
500,000	Cablevision Systems, Sr. Sub. Deb., 9.875%, 2/15/2013	590,000
1,000,000	Continental Cablevision, Sr. Deb., 9.50%, 8/1/2013	1,120,000
750,000	Rogers Communications, Inc., Sr. Note, 10.875%, 4/15/2004	836,250
2,000,000	TKR Cable, Inc., Sr. Note, 10.50%, 10/30/2007	2,505,000
500,000	Videotron Inc., Sr. Sub. Note, 10.25%, 10/15/2002	552,500
	Total	5,603,750

</TABLE>

FORTRESS BOND FUND

<TABLE>
<CAPTION>

PRINCIPAL AMOUNT		VALUE
<C>	<C> <S>	<C>
	CORPORATE BONDS--CONTINUED	
	CHEMICALS & PLASTICS--4.0%	
$ 750,000	Arcadian Partners L.P., Sr. Note, Series B, 10.75%, 5/1/2005	$ 785,625
500,000	Foamex Capital Corp., Sr. Sub. Deb., 11.875%, 10/1/2004	542,500
2,500,000	G-I Holdings, Inc., Sub. PIK Notes, 12.875%, 3/15/2005	1,528,125
1,000,000	UCC Investors Holdings, Inc., Sr. Sub. Note, 11.00%, 5/1/2003	1,090,000
1,250,000	Harris Chemical North American, Inc., 0/10.25%, 7/15/2001	1,028,125
	Total	4,974,375
	CLOTHING/TEXTILES--3.6%	
1,000,000	Fruit Of The Loom, Inc., Deb., 7.00%, 3/15/2011	972,500
1,000,000	Fruit of the Loom, Inc., Sr. Note, 7.875%, 10/15/99	1,094,090
500,000	Londontown Corp., Sr. Sub. Note., 13.625%, 6/15/99	538,750
1,800,000	Reebok International Ltd., Deb., 9.75%, 9/15/98	1,958,688
	Total	4,564,028
	CONGLOMERATE--4.5%	
504,000	Figgie International, Sub. Deb., 10.375%, 4/1/98	513,989
1,000,000	Noranda, Inc., Deb., 8.625%, 7/15/2002	1,102,610
500,000	Sherritt Gordon Ltd., Sr. Note, 9.75%, 4/1/2003	502,500
2,000,000	Textron, Inc., Deb., 8.75%, 7/1/2022	2,310,860
1,000,000	TRW, Inc., Deb., 9.375%, 4/15/2021	1,237,790
	Total	5,667,749
	CONTAINER & GLASS PRODUCTS--3.3%	
750,000	Owens Corning Fiberglass, Deb., 9.375%, 6/1/2012	886,125
500,000	Owens Illinois, Inc., Sr. Sub. Note, 10.50%, 6/15/2002	545,625
1,000,000	Sea Containers Ltd., Sr. Note, 9.50%, 7/1/2003	975,000
750,000	Silgan Holdings, Inc., Sr. Disc. Deb., 0/13.25%, 12/15/2002	573,750
1,000,000	U.S. Can Co., Sr. Sub. Note, 13.50%, 1/15/2002	1,150,000
	Total	4,130,500

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FORTRESS BOND FUND

<TABLE>
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PRINCIPAL AMOUNT		VALUE
<C>	<C> <S>	<C>
CORPORATE BONDS--CONTINUED		
	COSMETICS & TOILETRIES--0.8%	
$2,000,000	Revlon Worldwide Corp., Sr. Secured Note, Series B, 0/12.0%, 3/15/98	$ 1,030,000
	ECOLOGICAL SERVICES & EQUIPMENT--1.0%	
1,000,000	Browning Ferris Industries, Inc., 9.25%, 5/1/2021	1,249,230
	ELECTRONICS/ELECTRIC--0.4%	
500,000	Harmon International Industries, Sr. Sub. Note, 12.00%, 8/1/2002	557,500
	FINANCIAL INTERMEDIARIES--4.5%	
500,000	Coldwell Banker Corp., Sr. Sub. Note, 10.25%, 6/30/2003	530,000
1,000,000	Ford Capital-B.V., Guaranteed Global Note, 9.50%, 6/1/2010	1,275,740
1,500,000	Goldman Sachs Group LP, Note, 8.00%, 3/1/2013	1,607,475
2,000,000	Huntington Bancshares, Sub. Note, 7.875%, 11/15/2002	2,244,140
	Total	5,657,355
	FOOD PRODUCTS--3.9%	
500,000	Doskocil Cos., Inc., 9.75%, 7/15/2000	497,500
1,000,000	Grand Met Investment Corp., Guaranteed Deb., 8.00%, 9/15/2022	1,134,590
500,000	PMI Acquisition Corp., Sr. Sub. Note, 10.25%, 9/1/2003	527,500
2,000,000	Specialty Foods Acquisition Corp., Sr. Secured Disc. Deb., 0/13.00%, 8/15/2005	955,000
1,500,000	Super Value, Inc., Deb., 8.875%, 11/15/2022	1,756,050
	Total	4,870,640
	FOOD SERVICE--2.1%	
500,000	Americold Corp., 11.50%, FMB Series B, 3/1/2005	512,500
500,000	Flagstar Corp., Sr. Note, 10.75%, 9/15/2001	512,500
500,000	Flagstar Corp., Sr. Note, 10.875%, 12/01/2002	512,500
1,000,000	McDonalds Corp., Deb., 7.375%, 7/15/2033	1,064,390
	Total	2,601,890

</TABLE>

FORTRESS BOND FUND

<TABLE>
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PRINCIPAL AMOUNT		VALUE
<C>	<C> <S>	<C>
CORPORATE BONDS--CONTINUED		

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	FOOD/DRUG RETAILER--1.6%	
$1,000,000	Grand Union Co., Sr. Note, 12.25%, 7/15/2002	$ 1,057,500
1,000,000	Pathmark Stores, Inc., 9.625%, 5/1/2003	997,500
	Total	2,055,000
	FOREST PRODUCTS--3.6%	
1,000,000	Georgia-Pacific Corp. Note, 10.125%, 5/15/2000	1,075,480
1,500,000	Georgia-Pacific Corp., Deb., 9.50%, 5/15/2022	1,739,430
500,000	Riverwood International Corp., Sr. Sub. Note, 11.25%, 6/15/2002	545,000
1,000,000	Scott Paper Co., Deb., 8.80%, 5/15/2022	1,181,020
	Total	4,540,930
	HEALTHCARE--3.0%	
1,000,000	Alco Health Distribution Corp., Sr. PIK Deb., 11.25%, 7/15/2005	1,035,000
500,000	American Medical International, Inc., Sr. Sub. Note, 13.50%, 8/15/2001	588,750
1,000,000	Baxter International Inc., 7.50%, 5/1/97	1,079,840
1,000,000	Hillhaven Corp., Sr. Sub. Note, 10.125%, 9/1/2001	1,052,500
	Total	3,756,090
	HOME PRODUCTS--0.7%	
1,500,000	American Standard, Inc., Sr. Sub. Disc. Deb., 14.25%, 6/1/2005	920,625
	INDUSTRIAL EQUIPMENT--5.2%	
1,000,000	Amerace Corp., Sr. Sub. Note, 13.75%, 3/15/98	1,072,500
1,000,000	Caterpillar, Inc., Sr. Sinking Fund Deb., 9.75%, 6/1/2019	1,226,130
2,000,000	Deere & Co., Note, 8.45%, 3/1/2000	2,020,960
500,000	Essex Group, Inc., Sr. Note, 10.00%, 5/1/2003	508,750
1,000,000	Praxair, Inc., Deb., 8.70%, 7/15/2022	1,148,510
500,000	Wolverine Tube, Inc., Sr. Sub. Note, 10.125%, 9/1/2002	540,000
	Total	6,516,850

</TABLE>

FORTRESS BOND FUND

<TABLE>
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PRINCIPAL AMOUNT		VALUE
<C>	<C> <S>	<C>
CORPORATE BONDS--CONTINUED		
	INSURANCE--3.3%	
$ 500,000	Americo Life, Inc., Sr. Sub. Note, 9.25%, 6/1/2005	$ 503,750
1,000,000	Delphi Financial Group, Inc., 8.00%, 10/1/2003	987,820
1,000,000	Leucadia National Corp., Sr. Sub. Note, 10.375%, 6/15/2002	1,110,000
1,500,000	Sunamerica, Inc., Deb., 8.125%, 4/28/2023	1,585,800
	Total	4,187,370
	LEISURE--3.3%	

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500,000	Cinemark USA, Inc., Sr. Note, 12.00%, 6/1/2002	557,500
2,000,000	Eastman Kodak Co., Sr. Deb., 9.50%, 6/15/2008	2,572,240
1,000,000	Paramount Communications, Inc., Deb., 8.25%, 8/1/2022	1,006,710
	Total	4,136,450
	NON-FERROUS METALS/MINERALS--0.4%	
500,000	Kaiser Aluminum & Chemical Corp., Sr. Sub. Note, 12.75%, 2/1/2003	495,000
	OIL & GAS--5.6%	
2,000,000	Ashland Oil Co., Deb., 11.125%, 10/15/2017	2,456,920
1,000,000	Occidental Petroleum Corp., Deb., 11.125%, 6/1/2019	1,278,360
1,000,000	Seagull Energy Corp., Sr. Note, 7.875%, 8/1/2003	1,008,750
1,000,000	Triton Energy Corp., Sr. Sub. Disc Note, 0/12.90%, 11/1/97	702,500
1,000,000	USX Corp., Deb., 9.125%, 1/15/2013	1,041,460
500,000	USX Corp., Note, 9.625%, 8/15/2003	561,385
	Total	7,049,375
	PUBLISHING--2.7%	
2,000,000	News America Holdings, Sr. Note, 8.50%, 2/15/2005	2,213,940
1,000,000	News Corp., Sr. Note, 12.00%, 12/15/2001	1,227,500
	Total	3,441,440
	RAIL INDUSTRY--0.4%	
500,000	Southern Pacific Rail Corp., Sr. Note, 9.375%, 8/15/2005	513,750

</TABLE>

FORTRESS BOND FUND

<TABLE>
<CAPTION>

PRINCIPAL AMOUNT		VALUE
<C>	<S>	<C>
CORPORATE BONDS--CONTINUED		
	RETAILERS--3.6%	
$1,000,000	Brylane Capital Corp., Sr. Sub. Note, 10.00%, 9/1/2003	$ 1,020,000
1,000,000	JC Penney & Co. Inc., Sinking Fund Deb., 9.75%, 6/15/2021	1,261,450
2,000,000	May Dept. Stores Co., 8.375%, 10/1/2022	2,281,140
	Total	4,562,590
	STEEL--1.7%	
500,000	Armco, Inc., Sr. Note, 11.375%, 10/15/99	538,750
1,000,000	Carbide/Graphite Group Inc., Sr. Note, 11.50%, 9/1/2003	1,035,000
500,000	Geneva Steel Co., Sr. Note, 11.125%, 3/15/2001	523,750
	Total	2,097,500
	SURFACE TRANSPORTATION--0.4%	
500,000	Greyhound Lines, Inc., Sr. Note, 10.00%, 7/31/2001	522,500
	TELECOMMUNICATIONS/CELLULAR--1.4%	
1,000,000	GTE South Corp., Deb., 9.375%, 6/15/2030	1,117,840

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1,000,000	PanAmSat, L.P., Sr. Sub. Disc. Note, 0/11.375%, 8/1/2003	647,500
	Total	1,765,340
	UTILITIES--6.7%	
500,000	Long Island Lighting Co., Deb., 9.00%, 11/1/2022	552,860
500,000	Long Island Lighting Co., Deb., 9.625%, 7/1/2024	577,515
1,000,000	Niagara Mohawk Power Corp., First Mortgage, 9.50%, 3/1/2021	1,156,550
2,000,000	Ontario Hydro, Government Guaranteed Note, 9.250%, 5/1/95	2,136,300
1,000,000	Southern California Edison, Mortgage Bonds, 8.875%, 6/1/2024	1,120,890
2,600,000	Tennessee Valley Authority, Deb., Series C, 6.875%, 1/15/2002	2,860,130
	Total	8,404,245
	TOTAL CORPORATE BONDS (IDENTIFIED COST $102,095,718)	107,262,947

</TABLE>

FORTRESS BOND FUND

<TABLE>
<CAPTION>

PRINCIPAL AMOUNT		VALUE
<C>	<C> <S>	<C>
PREFERRED STOCKS--0.4%		
	UTILITIES--0.4%	
$ 18,000	Long Island Lighting Co., Series AA Pfd., 7.95%	$ 495,000
GOVERNMENT AGENCIES--3.8%		
	SOVEREIGNTY--3.8%	
1,400,000	New Zealand Government, Deb., 10.5%, 7/16/2000	1,658,678
1,500,000	Province of Quebec, 13.25%, 09/15/14	2,095,680
1,000,000	Province of Quebec, 7.5%, 7/15/23	1,050,440
	TOTAL GOVERNMENT AGENCIES (IDENTIFIED COST $4,717,856)	4,804,798
MORTGAGE-BACKED SECURITIES--5.1%		
	STRUCTURED PRODUCTS (ABS)--5.1%	
1,000,000	Discover Card Corp., 8.85%, 7/15/98	1,090,800
1,000,000	GE Capital Mortgage Services, Inc. 1991-1, Class B, 8.70%, 8/30/2011	1,105,320
1,000,000	Green Tree Financial Corp. 1992-2 Manufacturing Housing Sub Pass Thru, 9.15%, 1/15/2018	1,080,650
2,000,000	MBNA Corp., Series 1992 2-A, 6.20%, 8/15/99	2,077,120
1,000,000	Merrill Lynch Mortgage Investment, Inc., Series 1988H, 9.70%, 6/15/2008	1,082,500
	TOTAL MORTGAGE-BACKED SECURITIES (IDENTIFIED COST $6,281,250)	6,436,390
*REPURCHASE AGREEMENTS--6.5%		
8,135,000	J.P. Morgan Securities, Inc., 2.99%, dated 10/29/93, due 11/1/93 (Note 2B)	8,135,000
	TOTAL INVESTMENTS (IDENTIFIED COST $121,715,824)	$127,134,135+

</TABLE>

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* The repurchase agreement is fully collateralized by U.S. government and/or agency obligations, based on market prices at the date of the portfolio. The investment in the repurchase agreement is through participation in a joint account with other Federated Funds.

+ The cost of investments for federal tax purposes amounts to $121,717,474. The net unrealized appreciation of investments on a federal income tax basis amounts to $5,416,661, which is comprised of $5,800,543 appreciation and $383,882 depreciation at October 31, 1993.

ABS -- Asset Backed Securities

PIK -- Payment in kind.

Note: The categories of investments are shown as a percentage of net assets ($125,761,959) at October 31, 1993.

(See Notes which are an integral part of the Financial Statements)

FORTRESS BOND FUND

STATEMENT OF ASSETS AND LIABILITIES
OCTOBER 31, 1993

ASSETS:		
Investments at value (Notes 2A and 2B) (identified cost, $121,715,824 and tax cost, $121,717,474)		$127,134,135
Cash		5,041
Receivable for investments sold		2,648,503
Interest receivable		2,511,856
Receivable for capital stock sold		1,061,620
Total assets		133,361,155
LIABILITIES:		
Payable for investments purchased	$6,572,130	
Dividends payable	461,442	
Payable for capital stock redeemed	395,012	
Accrued expenses	170,612	
Total liabilities		7,599,196
NET ASSETS for 12,211,700 shares of capital stock outstanding		$125,761,959
NET ASSETS CONSIST OF:		
Paid-in capital		$118,483,275
Net unrealized appreciation of investments		5,418,311
Accumulated net realized gain on investments		1,886,224
Accumulated distributions in excess of net investment income		(25,851)
Total		$125,761,959
NET ASSET VALUE, and Redemption Price Per Share ($125,761,959 / 12,211,700 shares of capital stock outstanding)		$10.30
COMPUTATION OF OFFERING PRICE: OFFERING PRICE PER SHARE (100/99 OF $10.30)*		$10.40

* On sales of $1,000,000 or more the offering price is reduced as stated under "What Shares Cost" in the prospectus.

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(See Notes which are an integral part of the Financial Statements)

FORTRESS BOND FUND

STATEMENT OF OPERATIONS
YEAR ENDED OCTOBER 31, 1993

<TABLE>

<S>	<C>	<C>
INVESTMENT INCOME:		
Interest		$ 7,801,203
Dividends		17,887
Total investment income (Note 2C)		7,819,090
EXPENSES--		
Investment advisory fee (Note 5)	$ 671,751	
Directors' fees	4,763	
Administrative personnel and services (Note 5)	288,504	
Custodian, transfer and dividend disbursing agent fees and expenses	154,701	
Capital stock registration costs	115,524	
Auditing fees	18,082	
Legal fees	9,051	
Printing and postage	43,384	
Insurance premiums	6,767	
Taxes	3,855	
Shareholder servicing fee	162,264	
Miscellaneous	1,239	
Total expenses	1,479,885	
Waiver of investment advisory fee (Note 5)	548,973	
Net expenses		930,912
Net investment income		6,888,178
REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS:		
Net realized gain on investments (identified cost basis)--		2,082,462
Net change in unrealized appreciation on investments		6,719,114
Net realized and unrealized gain on investments		8,801,576
Change in net assets resulting from operations		$ 15,689,754

</TABLE>

(See Notes which are an integral part of the Financial Statements)

FORTRESS BOND FUND

STATEMENT OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,	
	1993	1992*
<S>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:		

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OPERATIONS--		
Net investment income	$ 6,888,178	$ 1,219,186
Net realized gain from investment transactions ($2,084,112 net gain and $112,136 net gain, respectively, as computed for federal tax purposes)	2,082,462	112,136
Change in unrealized appreciation (depreciation) of investments	6,719,114	(1,136,377)
Change in net assets resulting from operations	15,689,754	194,945
NET EQUALIZATION CREDITS (NOTE 2E)	116,945	167,586
DISTRIBUTIONS TO SHAREHOLDERS (NOTE 3)		
Dividends to shareholders from net investment income	(7,005,123)	(1,395,956)
Distributions in excess of net investment income	(20,955)	(4,896)
Change in net assets from distributions to shareholders	(7,026,078)	(1,400,852)
CAPITAL STOCK (PRINCIPAL) TRANSACTIONS (EXCLUSIVE OF AMOUNTS ALLOCATED TO NET INVESTMENT INCOME) (NOTE 4)		
Proceeds from sale of shares	84,195,992	81,128,886
Net asset value of shares issued to shareholders electing to receive payment of dividends in capital stock	2,669,825	679,758
Cost of shares redeemed	(24,770,792)	(31,951,931)
Change in net assets from capital stock transactions	62,095,025	49,856,713
Change in net assets	70,875,646	48,818,392
NET ASSETS:		
Beginning of period	54,886,313	6,067,921
End of period	$125,761,959	$ 54,886,313

</TABLE>

* For the ten months ended October 31, 1992.

(See Notes which are an integral part of the Financial Statements)

FORTRESS BOND FUND

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 1993

(1) ORGANIZATION

Investment Series Funds, Inc. (the "Corporation") is registered under the Investment Company Act of 1940, as amended, as a diversified, open-end, management investment company with two investment portfolios. The financial statements included herein present only those of Fortress Bond Fund, (the "Fund") which was previously operated as an investment portfolio of Investment Series Trust, a Massachusetts business trust. The financial statements of the other portfolio is presented separately. The assets of each portfolio are segregated and a shareholder's interest is limited to the portfolio in which shares are held.

(2) SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles.

<TABLE>
<S> <C>

A. INVESTMENT VALUATIONS--Listed Corporate Bonds (and other fixed income securities) are valued at the last sale prices on national securities exchanges on that day, if applicable. Unlisted Corporate Bonds are valued at the mean between the bid and asked prices provided by an independent pricing service. Short-term obligations are generally valued at the mean between bid and asked prices as furnished by an independent pricing

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service. Short-term obligations with maturities of sixty days or less are valued at amortized cost, which approximates value.

B. REPURCHASE AGREEMENTS--It is the policy of the Fund to require the custodian bank to take possession of, to have legally segregated in the Federal Reserve Book Entry System, or to have segregated within the custodian's bank's vault, all securities held as collateral in support of repurchase and reverse repurchase agreement investments. Additionally, procedures have been established by the Fund to monitor, on a daily basis, the market value of each repurchase agreement's underlying collateral to ensure the value at least equals to principal amount of the repurchase transaction, including accrued interest.
The Fund is also permitted to enter into reverse repurchase agreements, in which the Fund sells U.S. government securities to financial institutions and agrees to repurchase the securities at an agreed upon price and date.
The Fund will only enter into repurchase and reverse repurchase agreements with banks and other recognized financial institutions, such as broker/dealers, which are deemed by the Fund's adviser to be creditworthy pursuant to guidelines established by the Directors. Risks may arise from the potential inability of counterparties to honor the terms of these agreements. Accordingly, the Fund could receive less than the repurchase price on the sale of collateral securities.

</TABLE>

FORTRESS BOND FUND

<TABLE>
<S> <C>

C. INCOME--Interest income is recorded on the accrual basis and includes discount earned, less any premium on short-term obligations, and original issue discount on all other debt securities.

D. FEDERAL TAXES--It is the Fund's policy to continue to comply with the provisions of the Internal Revenue Code, applicable to regulated investment companies and to distribute to shareholders each year substantially all of its taxable income, including any net realized gain on investments. Accordingly, no provision for federal tax is necessary.

E. EQUALIZATION--The Fund follows the accounting practice known as equalization by which a portion of the proceeds from sales and costs of redemptions of capital stock equivalent, on a per share basis, to the amount of undistributed net investment income on the date of the transaction is credited or charged to undistributed net investment income. As a result, undistributed net investment income per share is unaffected by sales or redemptions of capital stock.

F. WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS--The Fund may engage in when-issued or delayed delivery transactions. The Fund records when-issued securities and maintains security positions such that sufficient liquid assets will be available to make payment for the securities purchased. Securities purchased on a when-issued or delayed delivery basis are marked to market daily and begin earning interest on the settlement date.

I. OTHER--Investment transactions are accounted for on the date of the transaction.

</TABLE>

(3) DIVIDENDS AND DISTRIBUTIONS

Dividends from net investment income are declared and paid monthly. Distributions of any net realized capital gains will be made at least once every twelve months. Dividends and capital gain distributions, if any, are recorded on the ex-dividend date.

The amounts shown in the financial statements for net investment income for the year ended October 31, 1993 and the period ended October 31, 1992, differs from the amount determined for tax purposes because of certain timing differences. This resulted in distributions to shareholders in excess of net investment income. These distributions do not represent a return of capital for federal income tax purposes.

FORTRESS BOND FUND

(4) CAPITAL STOCK

At October 31, 1993, there were 1,000,000,000,000 shares of ($.0001 par value) capital stock authorized. Transactions in capital stock were as follows:

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,	
	1993	1992*
<S>	<C>	<C>
Shares outstanding, beginning of period	5,943,685	688,656
Shares sold	8,508,866	8,529,534

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Shares issued to shareholders electing to receive payment of dividends in Fund shares	269,258	72,792
Shares redeemed	(2,510,109)	(3,347,297)
Shares outstanding, end of period	12,211,700	5,943,685

</TABLE>

* For the ten months ended October 31, 1992.

(5) INVESTMENT ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

Federated Advisers, the Fund's investment adviser, ("Adviser") received for its services an annual investment advisory fee equal to .75 of 1% of the Fund's average daily net assets. The Adviser has voluntarily agreed to waive a portion of its fee. The Adviser can terminate this voluntary waiver at any time at its sole discretion. For the fiscal year ended October 31, 1993, the Adviser earned a fee of $671,751 of which $548,973 was voluntarily waived.

Administrative personnel and services were provided at approximate cost by Federated Administrative Services, Inc. ("FAS") Certain of the Officers and Directors of the Fund are Officers and Directors of the above corporations.

(6) INVESTMENT TRANSACTIONS

Purchases, and sales of investments, excluding short-term securities for the fiscal year ended October 31, 1993 were as follows:

<TABLE>

<S>	<C>
PURCHASES--	$109,869,032
SALES--	$ 52,320,090

</TABLE>

REPORT OF ERNST & YOUNG, INDEPENDENT AUDITORS

To the Directors and Shareholders of

INVESTMENT SERIES FUNDS, INC.:

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of Fortress Bond Fund (one of the portfolios comprising the Investment Series Funds, Inc.) and the related statement of operations as of October 31, 1993, the statement of changes in net assets for the year ended October 31, 1993 and for the ten months ended October 31, 1992, and the financial highlights (see page 2 of this prospectus) for the periods presented. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 1993, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Fortress Bond Fund of Investment Series Funds, Inc. at October 31, 1993, the results of its operations for the year then ended, the changes in its net assets for the year ended October 31, 1993 and for the ten months ended October 31, 1993 and the financial highlights for the periods presented in conformity with generally accepted accounting principles.

ERNST & YOUNG

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Pittsburgh, Pennsylvania
December 10, 1993

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ADDRESSES

Investment Series Funds, Inc.	Fortress Bond Fund	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Distributor	Federated Securities Corp.	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Investment Adviser	Federated Advisers	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Custodian	State Street Bank and Trust Company	P.O. Box 8604 Boston, Massachusetts 02266-8604
Transfer Agent and Dividend Disbursing Agent	Federated Services Company	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Legal Counsel	Houston, Houston & Donnelly	2510 Centre City Tower Pittsburgh, Pennsylvania 15222
Legal Counsel	Dickstein, Shapiro & Morin	2101 L Street, N.W. Washington, D.C. 20037
Independent Auditors	Ernst & Young	One Oxford Center Pittsburgh, Pennsylvania 15219

FORTRESS BOND FUND
(A PORTFOLIO OF INVESTMENT SERIES FUNDS, INC.)
PROSPECTUS

A Diversified Portfolio of
Investment Series Funds, Inc.,
an Open-End Management
Investment Company

Prospectus Dated December 31, 1993

FEDERATED SECURITIES CORP.
(LOGO)

Distributor

A subsidiary of FEDERATED INVESTORS

FEDERATED INVESTORS TOWER

PITTSBURGH, PA 15222-3779

2041304 (12/93)

FORTRESS BOND FUND

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(A PORTFOLIO OF INVESTMENT SERIES FUNDS, INC.)
STATEMENT OF ADDITIONAL INFORMATION

This Statement of Additional Information should be read with the prospectus of Fortress Bond Fund (the "Fund") dated December 31, 1993. This Statement is not a prospectus itself. To receive a copy of the prospectus, write or call the Fund.

FEDERATED INVESTORS TOWER
PITTSBURGH, PENNSYLVANIA 15222-3779

Statement dated December 31, 1993

FEDERATED SECURITIES CORP.
(LOGO)
- ---
Distributor

A subsidiary of FEDERATED INVESTORS

TABLE OF CONTENTS
- ---

GENERAL INFORMATION ABOUT THE FUND	1
INVESTMENT OBJECTIVE AND POLICIES	1
Types of Investments	1
Futures and Options Transactions	1
Investing in Foreign Currencies	2
When-Issued and Delayed Delivery Transactions	3
Lending of Portfolio Securities	4
Repurchase Agreements	4
Reverse Repurchase Agreements	4
Portfolio Turnover	4
INVESTMENT LIMITATIONS	4
MANAGEMENT OF THE CORPORATION	7
Officers and Directors	7
The Funds	8
Fund Ownership	9
INVESTMENT ADVISORY SERVICES	9
Adviser to the Fund	9
Advisory Fees	9
ADMINISTRATIVE ARRANGEMENTS	10
ADMINISTRATIVE SERVICES	10
BROKERAGE TRANSACTIONS	10
PURCHASING SHARES	10
Purchases by Sales Representatives, Directors, and Employees	11
Conversion to Federal Funds	11
DETERMINING NET ASSET VALUE	11
Determining Market Value of Securities	11
REDEEMING SHARES	11

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EXCHANGE PRIVILEGE 11

Reduced Sales Charge 12
Requirements for Exchange 12
Tax Consequences 12
Making an Exchange 12

TAX STATUS 12

The Fund's Tax Status 12
Shareholders' Tax Status 12

TOTAL RETURN 12

YIELD 13

PERFORMANCE COMPARISONS 13

Duration 14

APPENDIX 15

GENERAL INFORMATION ABOUT THE FUND

The Fund is a portfolio of Investment Series Funds, Inc. (the "Corporation"). The Fund was established as a portfolio of Investment Series Trust, a Massachusetts business trust, on March 17, 1987, and on February 5, 1993, was reorganized into a portfolio of the Corporation, which is organized under the laws of the State of Maryland. It is qualified to do business as a foreign corporation in Pennsylvania.

INVESTMENT OBJECTIVE AND POLICIES

The investment objective of the Fund is to provide as high a level of current income as is consistent with the preservation of capital. The investment objective cannot be changed without approval of shareholders.

TYPES OF INVESTMENTS

As a matter of investment policy, which may be changed without shareholder approval, the Fund will, under normal circumstances, invest at least 65% of the value of its total net assets in investment grade bonds. Permitted investments include:

- - domestically-issued corporate debt obligations;

- - asset-backed securities;

- - obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities; and

- - repurchase agreements.

FUTURES AND OPTIONS TRANSACTIONS

The Fund may attempt to hedge all or a portion of its portfolio by buying and selling financial futures contracts, buying put options on portfolio securities and listed put options on futures contracts, and writing call options on futures contracts. The Fund may also write covered call options on portfolio securities to attempt to increase its current income. The Fund currently does not intend to invest more than 5% of its total assets in options transactions.

FINANCIAL FUTURES CONTRACTS

A futures contract is a firm commitment by two parties: the seller who agrees to make delivery of the specific type of security called for in the contract ("going short") and the buyer who agrees to take delivery of the security ("going long") at a certain time in the future.

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In the fixed income securities market, price moves inversely to interest rates. A rise in rates means a drop in price. Conversely, a drop in rates means a rise in price. In order to hedge its holdings of fixed income securities against a rise in market interest rates, the Fund could enter into contracts to deliver securities at a predetermined price (i.e., "go short") to protect itself against the possibility that the prices of its fixed income securities may decline during the Fund's anticipated holding period. The Fund would "go long" (agree to purchase securities in the future at a predetermined price) to hedge against a decline in market interest rates.

PUT OPTIONS ON FINANCIAL FUTURES CONTRACTS

The Fund may purchase listed put options on financial futures contracts. Unlike entering directly into a futures contract, which requires the purchaser to buy a financial instrument on a set date at a specified price, the purchase of a put option on a futures contract entitles (but does not obligate) its purchaser to decide on or before a future date whether to assume a short position at the specified price.

The Fund would purchase put options on futures contracts to protect portfolio securities against decreases in value resulting from an anticipated increase in market interest rates. Generally, if the hedged portfolio securities decrease in value during the term of an option, the related futures contracts will also decrease in value and the option will increase in value. In such an event, the Fund will normally close out its option by selling an identical option. If the hedge is successful, the proceeds received by the Fund upon the sale of the second option will be large enough to offset both the premium paid by the Fund for the original option plus the decrease in value of the hedged securities.

Alternatively, the Fund may exercise its put option. To do so, it would simultaneously enter into a futures contract of the type underlying the option (for a price less than the strike price of the option) and exercise the option. The Fund would then deliver the futures contract in return for payment of the strike price. If the Fund neither closes out nor exercises an option, the option will expire on the date provided in the option contract, and the premium paid for the contract will be lost.

CALL OPTIONS ON FINANCIAL FUTURES CONTRACTS

In addition to purchasing put options on futures, the Fund may write listed call options on futures contracts to hedge its portfolio against an increase in market interest rates. When the Fund writes a call option on a futures contract, it is undertaking the obligation of assuming a short futures position (selling a futures contract) at the fixed strike price at any time during the life of the option if the option is exercised. As

- ---

market interest rates rise, causing the prices of futures to go down, the Fund's obligation under a call option on a future (to sell a futures contract) costs less to fulfill, causing the value of the Fund's call option position to increase.

In other words, as the underlying futures price goes down below the strike price, the buyer of the option has no reason to exercise the call, so that the Fund keeps the premium received for the option. This premium can offset the drop in value of the Fund's fixed income portfolio which is occurring as interest rates rise.

Prior to the expiration of a call written by the Fund, or exercise of it by the buyer, the Fund may close out the option by buying an identical option. If the hedge is successful, the cost of the second option will be less than the premium received by the Fund for the initial option. The net premium income of the Fund will then offset the decrease in value of the hedged securities.

The Fund will not maintain open positions in futures contracts it has sold or call options it has written on futures contracts if, in the aggregate, the value of the open positions (marked to market) exceeds the current market value of its securities portfolio plus or minus the unrealized gain or loss on those open positions, adjusted for the correlation of volatility between the hedged securities and the futures contracts. If this limitation is exceeded at any time, the Fund will take prompt action to close out a sufficient number of open contracts to bring its open futures and options positions within this limitation.

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"MARGIN" IN FUTURES TRANSACTIONS

Unlike the purchase or sale of a security, the Fund does not pay or receive money upon the purchase or sale of a futures contract. Rather, the Fund is required to deposit an amount of "initial margin" in cash or U.S. Treasury bills with its custodian (or the broker, if legally permitted). The nature of initial margin in futures transactions is different from that of margin in securities transactions in that futures contract initial margin does not involve the borrowing of funds by the Fund to finance the transactions. Initial margin is in the nature of a performance bond or good faith deposit on the contract which is returned to the Fund upon termination of the futures contract, assuming all contractual obligations have been satisfied.

A futures contract held by the Fund is valued daily at the official settlement price of the exchange on which it is traded. Each day the Fund pays or receives cash, called "variation margin," equal to the daily change in value of the futures contract. This process is known as "marking to market." Variation margin does not represent a borrowing or loan by the Fund but is instead settlement between the Fund and the broker of the amount one would owe the other if the futures contract expired. In computing its daily net asset value, the Fund will mark-to-market its open futures positions.

The Fund is also required to deposit and maintain margin when it writes call options on futures contracts.

PURCHASING PUT OPTIONS ON PORTFOLIO SECURITIES

The Fund may purchase put options on portfolio securities to protect against price movements in particular securities in its portfolio. A put option gives the Fund, in return for a premium, the right to sell the underlying security to the writer (seller) as a specified price during the term of the option.

WRITING COVERED CALL OPTIONS ON PORTFOLIO SECURITIES

The Fund may also write covered call options to generate income. As writer of a call option, the Fund has the obligation upon exercise of the option during the option period to deliver the underlying security upon payment of the exercise price. The Fund may only sell call options either on securities held in its portfolio or on securities which it has the right to obtain without payment of further consideration (or has segregated cash in the amount of any additional consideration).

INVESTING IN FOREIGN CURRENCIES

FORWARD FOREIGN CURRENCY EXCHANGE CONTRACTS

The Fund may enter into forward foreign currency exchange contracts in order to protect itself against a possible loss resulting from an adverse change in the relationship between the U.S. dollar and a foreign currency involved in an underlying transaction. However, forward foreign currency exchange contracts may limit potential gains which could result from a positive change in such currency relationships. The Fund's investment advisor believes that it is important to have the flexibility to enter into forward foreign currency exchange contracts whenever it determines that it is in the Fund's best interest to do so. The Fund will not speculate in foreign currency exchange.

There is no limitation as to the percentage of the Fund's assets that may be committed to such contracts.

The Fund does not enter into forward foreign currency exchange contracts or maintain a net exposure in such contracts when the Fund would be obligated to deliver an amount of foreign currency in excess of the value of

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the Fund's portfolio securities or other assets denominated in that currency or, in the case of a "cross-hedge" denominated in a currency or currencies that the Fund's investment adviser believes will tend to be closely correlated with the currency with regard to price movements. Generally, the Fund does not enter into a forward foreign currency exchange contract with a term longer than one year.

FOREIGN CURRENCY OPTIONS

A foreign currency option provides the option buyer with the right to buy

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or sell a stated amount of foreign currency at the exercise price on a specified date or during the option period. The owner of a call option has the right, but not the obligation, to buy the currency. Conversely, the owner of a put option has the right, but not the obligation to sell the currency.

When the option is exercised, the seller (i.e., writer) of the option is obligated to fulfill the terms of the sold option. However, either the seller or the buyer may, in the secondary market, close its position during the option period at any time prior to expiration.

A call option on foreign currency generally rises in value if the underlying currency appreciates in value, and a put option on foreign currency generally falls in value if the underlying currency depreciates in value. Although purchasing a foreign currency option can protect the Fund against an adverse movement in the value of a foreign currency, the option will not limit the movement in the value of such currency. For example, if the Fund were holding securities denominated in a foreign currency that was appreciating and had purchased a foreign currency put to hedge against a decline in the value of the currency, the Fund would not have to exercise its put option. Likewise, if the Fund were to enter into a contract to purchase a security denominated in foreign currency and, in conjunction with that purchase, were to purchase a foreign currency call option to hedge against a rise in value of the currency, and if the value of the currency instead depreciated between the date of purchase and the settlement date, the Fund would not have to exercise its call. Instead, the Fund could acquire in the spot market the amount of foreign currency needed for settlement.

SPECIAL RISKS ASSOCIATED WITH FOREIGN CURRENCY OPTIONS

Buyers and sellers of foreign currency options are subject to the same risks that apply to options generally.

In addition, there are certain additional risks associated with foreign currency options. The markets in foreign currency options are relatively new, and the Fund's ability to establish and close out positions on such options is subject to the maintenance of a liquid secondary market. Although the Fund will not purchase or write such options unless and until, in the opinion of the Fund's investment adviser, the market for them has developed sufficiently to ensure that the risks in connection with such options are not greater than the risks in connection with the underlying currency, there can be no assurance that a liquid secondary market will exist for a particular option at any specific time.

In addition, options on foreign currencies are affected by all of those factors that influence foreign exchange rates and investments generally.

The value of a foreign currency option depends upon the value of the underlying currency relative to the U.S. dollar. As a result, the price of the option position may vary with changes in the value of either or both currencies and may have no relationship to the investment merits of a foreign security. Because foreign currency transactions occurring in the interbank market involve substantially larger amounts than those that may be involved in the use of foreign currency options, investors may be disadvantaged by having to deal in an odd lot market (generally consisting of transactions of less than $1 million) for the underlying foreign currencies at prices that are less favorable than for round lots.

There is no systematic reporting of last sale information for foreign currencies or any regulatory requirement that quotations available through dealers or other market sources be firm or revised on a timely basis.

Available quotation information is generally representative of very large transactions in the interbank market and thus may not reflect relatively smaller transactions (i.e. less than $1 million) where rates may be less favorable. The interbank market in foreign currencies is a global, around-the-clock market. To the extent that the U.S. option markets are closed while the markets for the underlying currencies remain open, significant price and rate movements may take place in the underlying markets that cannot be reflected in the options markets until they reopen.

WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS

These transactions are arrangements in which the Fund purchases securities with payment and delivery scheduled for a future time. The Fund engages in when-issued and delayed delivery transactions only for the purpose of acquiring portfolio securities consistent with the Fund's investment objectives and policies, not for investment leverage. In

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when-issued and delayed delivery transactions, the Fund relies on the seller to complete the transaction. The seller's failure to complete the transaction may cause the Fund to miss a price or yield considered to be advantageous.

These transactions are made to secure what is considered to be an advantageous price or yield for the Fund. Settlement dates may be a month or more after entering into these transactions, and the market values of the securities purchased may vary from the purchase prices.

No fees or other expenses, other than normal transaction costs, are incurred. However, liquid assets of the Fund sufficient to make payments for the securities to be purchased are segregated at the trade date. These securities are marked to market daily and maintained until the transaction is settled.

As a matter of policy, the Fund does not intend to engage in when-issued and delayed delivery transactions to an extent that would cause the segregation of more than 20% of the total value of assets.

LENDING OF PORTFOLIO SECURITIES

The collateral received when the Fund lends portfolio securities must be valued daily and, should the market value of the loaned securities increase, the borrower must furnish additional collateral to the Fund. During the time portfolio securities are on loan, the borrower pays the Fund any dividends or interest paid on such securities. Loans are subject to termination at the option of the Fund or the borrower. The Fund may pay reasonable administrative and custodial fees in connection with a loan and may pay a negotiated portion of the interest earned on the cash or equivalent collateral to the borrower or placing broker. The Fund does not have the right to vote securities on loan, but would terminate the loan and regain the right to vote if that were considered important with respect to the investment.

REPURCHASE AGREEMENTS

The Fund requires its custodian to take possession of the securities subject to repurchase agreements, and these securities are marked to market daily. To the extent that the original seller does not repurchase the securities from the Fund, the Fund could receive less than the repurchase price on any sale of such securities. In the event that a defaulting seller files for bankruptcy or becomes insolvent, disposition of securities by the Fund might be delayed pending court action. The Fund believes that under the regular procedures normally in effect for custody of the Fund's portfolio securities subject to repurchase agreements, a court of competent jurisdiction would rule in favor of the Fund and allow retention or disposition of such securities. The Fund will only enter into repurchase agreements with banks and other recognized financial institutions, such as broker/dealers, which are deemed by the Fund's adviser to be creditworthy pursuant to guidelines established by the Directors.

REVERSE REPURCHASE AGREEMENTS

The Fund may also enter into reverse repurchase agreements. These transactions are similar to borrowing cash. In a reverse repurchase agreement the Fund transfers possession of a portfolio instrument to another person, such as a financial institution, broker, or dealer, in return for a percentage of the instrument's market value in cash, and agrees that on a stipulated date in the future the Fund will repurchase the portfolio instrument by remitting the original consideration plus interest at an agreed upon rate. The use of reverse repurchase agreements may enable the Fund to avoid selling portfolio instruments at a time when a sale may be deemed to be disadvantageous, but the ability to enter into reverse repurchase agreements does not ensure that the Fund will be able to avoid selling portfolio instruments at a disadvantageous time.

When effecting reverse repurchase agreements, liquid assets of the Fund, in a dollar amount sufficient to make payment for the obligations to be purchased, are segregated at the trade date. The securities are marked to market daily and maintained until the transaction is settled.

PORTFOLIO TURNOVER

The Fund will not attempt to set or meet a portfolio turnover rate since any turnover would be incidental to transactions undertaken in an attempt to achieve the Fund's investment objectives. For the fiscal year ended October 31, 1993, the period ended October 31, 1992, and the fiscal year ended December 31, 1991, the portfolio turnover rates were 51%, 49%, and 33%, respectively.

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INVESTMENT LIMITATIONS

BUYING ON MARGIN

The Fund will not purchase any securities on margin but may obtain such short-term credits as may be necessary for the clearance of transactions.

ISSUING SENIOR SECURITIES AND BORROWING MONEY

The Fund will not issue senior securities except that the Fund may borrow money and engage in reverse repurchase agreements in amounts up to one-third of the value of its net assets, including the amounts borrowed.

The Fund will not borrow money or engage in reverse repurchase agreements for investment leverage, but rather as a temporary, extraordinary, or emergency measure or to facilitate management of the portfolio by enabling the Fund to meet redemption requests when the liquidation of portfolio securities is deemed to be inconvenient or disadvantageous. The Fund will not purchase any securities while any such borrowings in excess of 5% of its total assets are outstanding.

PLEDGING ASSETS

The Fund will not mortgage, pledge, or hypothecate any assets except to secure permitted borrowings. In those cases, it may pledge assets having a market value not exceeding the lesser of the dollar amounts borrowed or 10% of the value of total assets at the time of the borrowing.

DIVERSIFICATION OF INVESTMENTS

With respect to securities comprising 75% of the value of its total assets, the Fund will not purchase securities issued by any one issuer (other than cash, cash items or securities issued or guaranteed by the government of the United States or its agencies or instrumentalities and repurchase agreements collateralized by such securities) if as a result more than 5% of the value of its total assets would be invested in the securities of that issuer. (For purposes of this limitation, the Fund considers instruments issued by a U.S. branch of a domestic bank having capital, surplus, and undivided profits in excess of $100,000,000 at the time of investment to be "cash items.")

INVESTING IN REAL ESTATE

The Fund will not buy or sell real estate, although it may invest in the securities of companies whose business involves the purchase or sale of real estate or in securities which are secured by real estate or interests in real estate.

INVESTING IN COMMODITIES

The Fund will not purchase or sell commodities. However, the Fund may purchase put options on portfolio securities and on financial futures contracts. In addition, the Fund reserves the right to hedge the portfolio by entering into financial futures contracts and to sell calls on financial futures contracts. The Fund will notify shareholders before such a change in its operating policies is implemented.

INVESTING IN RESTRICTED SECURITIES

The Fund will not invest more than 10% of its net assets in securities subject to restrictions on resale under the federal securities laws (except for commercial paper issued under Section 4(2) of the Securities Act of 1933).

UNDERWRITING

The Fund will not underwrite any issue of securities, except as it may be deemed to be an underwriter under the Securities Act of 1933 in connection with the sale of securities in accordance with its investment objectives, policies, and limitations.

LENDING CASH OR SECURITIES

The Fund will not lend any of its assets except portfolio securities in accordance with that section of the prospectus entitled "Lending of Portfolio Securities."

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CONCENTRATION OF INVESTMENTS

The Fund will not invest 25% or more of the value of its total assets in any one industry. However, investing in U.S. government obligations shall not be considered investments in any one industry.

SELLING SHORT

The Fund will not sell securities short unless:

- during the time the short position is open, it owns an equal amount of the securities sold or securities readily and freely convertible into or exchangeable, without payment of additional consideration, for securities of the same issuer as, and equal in amount to, the securities sold short; and

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- not more than 10% of the Fund's net assets (taken at current value) is held as collateral for such sales at any one time.

INVESTING IN ILLIQUID SECURITIES

The Fund will not invest more than 15% of its net assets in securities which are illiquid, including repurchase agreements providing for settlement in more than seven days after notice.

The above investment limitations cannot be changed without shareholder approval. The following limitations, however, may be changed by the Directors without shareholder approval. Shareholders will be notified before any material change in those limitations becomes effective.

INVESTING IN MINERALS

The Fund will not purchase interests in oil, gas, or other mineral exploration or development programs or leases, although it may purchase the securities of issuers which invest in or sponsor such programs.

INVESTING IN NEW ISSUERS

The Fund will not invest more than 5% of the value of its total assets in portfolio instruments of unseasoned issuers, including their predecessors, that have been in operation for less than three years.

INVESTING IN ISSUERS WHOSE SECURITIES ARE OWNED BY OFFICERS AND DIRECTORS OF THE CORPORATION

The Fund will not purchase or retain the securities of any issuer if the officers and Directors of the Corporation or its investment adviser owning individually more than 1/2 of 1% of the issuer's securities together own more than 5% of the issuer's securities.

WRITING COVERED CALL OPTIONS AND PURCHASING PUT OPTIONS

The Fund will not write call options on securities unless the securities are held in the Fund's portfolio or unless the Fund is entitled to them in deliverable form without further payment or after segregating cash in the amount of any further payment. The Fund will not purchase put options on securities unless the securities are held in the Fund's portfolio.

INVESTING IN SECURITIES OF OTHER INVESTMENT COMPANIES

The Fund will limit its investment in other investment companies to no more than 3% of the total outstanding voting stock of any investment company, invest no more than 5% of its total assets in any one investment company, or invest more than 10% of its total assets in investment companies in general. The Fund will limit its investments in the securities of other investment companies to those of money market funds having investment objectives and policies similar to its own. The Fund will purchase securities of closed-end investment companies only in open market transactions involving only customary broker's commissions. However, these limitations are not applicable if the securities are acquired in a merger, consolidation, reorganization or acquisition of assets. While it is the Fund's policy to waive its investment advisory fee on assets invested in securities of open-end investment companies, it should be noted that investment companies incur certain expenses such as custodian and transfer agent fees, and therefore any investment by a Fund in shares of another investment company would be subject to such duplicate expenses.

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Except with respect to borrowing money, if a percentage limitation is adhered to at the time of investment, a later increase or decrease in percentage resulting from any change in value or net assets will not result in a violation of such restriction.

The use of short sales will allow the Fund to retain certain bonds in its portfolio longer than it would without such sales. To the extent the Fund receives the current income produced by such bonds for a longer period than it might otherwise, the Fund's investment objective of current income is furthered.

MANAGEMENT OF THE CORPORATION

OFFICERS AND DIRECTORS

Officers and Directors are listed with their addresses, principal occupations, and present positions, including any affiliation with Federated Advisers, Federated Investors, Federated Securities Corp., Federated Administrative Services, Inc., and the Funds (as defined below).

<TABLE>
<CAPTION>

NAME AND ADDRESS	POSITIONS WITH THE FUND	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS
John F. Donahue+* Federated Investors Tower Pittsburgh, PA	Chairman and Director	Chairman and Trustee, Federated Investors; Chairman and Trustee, Federated Advisers, Federated Management, and Federated Research; Director, AEtna Life and Casualty Company; Chief Executive Officer and Director, Trustee, or Managing General Partner of the Funds; formerly, Director, The Standard Fire Insurance Company. Mr. Donahue is the father of J. Christopher Donahue, President and Trustee of the Corporation.
John T. Conroy, Jr. Wood/IPC Commercial Department John R. Wood and Associates, Inc., Realtors 3255 Tamiami Trail North Naples, FL	Director	Senior Vice-President, John R. Wood and Associates, Inc., Realtors; President, Investment Properties Corporation; President, Northgate Village Development Corporation; General Partner or Trustee in private real estate ventures in Southwest Florida; Director, Trustee, or Managing General Partner of the Funds; formerly, President, Naples Property Management, Inc.
William J. Copeland One PNC Plaza 23rd Floor Pittsburgh, PA	Director	Director and Member of the Executive Committee, Michael Baker, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Vice Chairman and Director, PNC Bank, N.A., and PNC Bank Corp. and Director, Ryan Homes, Inc.
J. Christopher Donahue* Federated Investors Tower Pittsburgh, PA	President and Director	President and Trustee, Federated Investors; Trustee, Federated Advisers, Federated Management, and Federated Research; President and Director, Federated Administrative Services, Inc.; Trustee, Federated Services Company; President or Vice President of the Funds; Director, Trustee, or Managing General Partner of some of the Funds. Mr. Donahue is the son of John F. Donahue, Chairman and Trustee of the Corporation.
James E. Dowd 571 Hayward Mill Road Concord, MA	Director	Attorney-at-law; Director, The Emerging Germany Fund, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Director, Blue Cross of Massachusetts, Inc.
Lawrence D. Ellis, M.D. 3471 Fifth Avenue Suite 1111 Pittsburgh, PA	Director	Hematologist, Oncologist, and Internist, Presbyterian and Montefiore Hospitals; Clinical Professor of Medicine and Trustee, University of Pittsburgh; Director, Trustee, or Managing General Partner of the Funds.
Edward L. Flaherty, Jr.+ 5916 Penn Mall Pittsburgh, PA	Director	Attorney-at-law; Partner, Meyer and Flaherty; Director, Eat'N Park Restaurants, Inc., and Statewide Settlement Agency, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Counsel, Horizon Financial, F.A., Western Region.
Peter E. Madden 225 Franklin Street Boston, MA	Director	Consultant; State Representative, Commonwealth of Massachusetts; Director, Trustee or Managing General Partner of the Funds; formerly, President, State Street

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		Bank and Trust Company and State Street Boston Corporation and Trustee, Lahey Clinic Foundation, Inc.
Gregor F. Meyer 5916 Penn Mall Pittsburgh, PA	Director	Attorney-at-law; Partner, Meyer and Flaherty; Chairman, Meritcare, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Vice Chairman, Horizon Financial, F.A.

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<CAPTION>

NAME AND ADDRESS	POSITIONS WITH THE FUND	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS
<S> <C>	<C>	<C>
Wesley W. Posvar 1202 Cathedral of Learning University of Pittsburgh Pittsburgh, PA	Director	Professor, Foreign Policy and Management Consultant; Trustee, Carnegie Endowment for International Peace and RAND Corporation, Online Computer Library Center, Inc., and U.S. Space Foundation; Chairman, Czecho Slovak Management Center; Director, Trustee, or Managing General Partner of the Funds; President Emeritus, University of Pittsburgh; formerly Chairman, National Advisory Council for Environmental Policy and Technology.
Marjorie P. Smuts 4905 Bayard Street Pittsburgh, PA	Director	Public relations/marketing consultant; Director, Trustee, or Managing General Partner of the Funds.
Richard B. Fisher Federated Investors Tower Pittsburgh, PA	Vice President	Executive Vice President and Trustee, Federated Investors; Chairman and Director, Federated Securities Corp.; President or Vice President of the Funds; Director or Trustee of some of the Funds.
Edward C. Gonzales Federated Investors Tower Pittsburgh, PA	Vice President and Treasurer	Vice President, Treasurer, and Trustee, Federated Investors; Vice President and Treasurer, Federated Advisers, Federated Management, and Federated Research; Executive Vice President, Treasurer, and Director, Federated Securities Corp.; Trustee, Federated Services Company; Chairman, Treasurer, and Director, Federated Administrative Services, Inc.; Trustee of some of the Funds; Vice President and Treasurer of the Funds.
John W. McGonigle Federated Investors Tower Pittsburgh, PA	Vice President and Secretary	Vice President, Secretary, General Counsel, and Trustee, Federated Investors; Vice President, Secretary and Trustee, Federated Advisers, Federated Management, and Federated Research; Trustee, Federated Services Company; Trustee, Federated Services Company Executive Vice President, Secretary, and Director, Federated Administrative Services, Inc.; Director Federated Securities Corp.; Vice President and Secretary of the Funds.
John A. Staley, IV Federated Investors Tower Pittsburgh, PA	Vice President	Vice President and Trustee, Federated Investors; Executive Vice President, Federated Securities Corp.; President and Trustee, Federated Advisers, Federated Management, and Federated Research; Vice President of the Funds; Director, Trustee, or Managing General Partner of some of the Funds; formerly, Vice President, The Standard Fire Insurance Company and President of its Federated Research Division.

</TABLE>

* This Director is deemed to be an "interested person" of the Corporation as defined in the Investment Company Act of 1940.

+ Members of the Corporation's Executive Committee. The Executive Committee of the Board of Directors handles the responsibilities of the Board of Directors between meetings of the Directors.

THE FUNDS

"The Funds" and "Funds" mean the following investment companies: A.T. Ohio Tax-Free Money Fund; American Leaders Fund, Inc.; Annuity Management Series; Automated Cash Management Trust; Automated Government Money Trust; The Boulevard

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Funds; California Municipal Cash Trust; Cash Trust Series, Inc.; Cash Trust Series II; DG Investor Series; Edward D. Jones & Co. Daily Passport Cash Trust; FT Series, Inc.; Federated ARMs Fund; Federated Exchange Fund, Ltd.; Federated GNMA Trust; Federated Government Trust; Federated Growth Trust; Federated High Yield Trust; Federated Income Securities Trust; Federated Income Trust; Federated Index Trust; Federated Intermediate Government Trust; Federated Master Trust; Federated Municipal Trust; Federated Short-Intermediate Government Trust; Federated Short-Term U.S. Government Trust; Federated Stock Trust; Federated Tax-Free Trust; Federated U.S. Government Bond Fund; First Priority Funds; Fixed Income Securities, Inc.; Fortress Adjustable Rate U.S. Government Fund, Inc.; Fortress Municipal Income Fund, Inc.; Fortress Utility Fund, Inc.; Fund

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for U.S. Government Securities, Inc.; Government Income Securities, Inc.; High Yield Cash Trust; Intermediate Municipal Trust; Investment Series Funds, Inc.; Investment Series Trust; Liberty Equity Income Fund, Inc.; Liberty High Income Bond Fund, Inc.; Liberty Municipal Securities Fund, Inc.; Liberty Term Trust, Inc.-1999; Liberty U.S. Government Money Market Trust; Liberty Utility Fund, Inc.; Liquid Cash Trust; Mark Twain Funds; Money Market Management, Inc.; Money Market Obligations Trust; Money Market Trust; Municipal Securities Income Trust; New York Municipal Cash Trust; 111 Corcoran Funds; The Planters Funds; Portage Funds; RIMCO Monument Funds; The Shawmut Funds; Short-Term Municipal Trust; Signet Select Funds; Star Funds; The Starburst Funds; The Starburst Funds II; Targeted Duration Trust; Tax-Free Instruments Trust; Trademark Funds; Trust For Financial Institutions; Trust for Government Cash Reserves; Trust for Short-Term U.S. Government Securities; and Trust for U.S. Treasury Obligations.

FUND OWNERSHIP

Officers and Directors own less than 1% of the Fund's outstanding shares.

Merrill Lynch, Pierce, Fenner & Smith (as record owner holding Fund shares for its clients), Jacksonville, Florida, owned approximately 4,306,722 shares (33.40%) of the Fund as of December 31, 1993.

INVESTMENT ADVISORY SERVICES
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ADVISER TO THE FUND

The Fund's investment adviser is Federated Advisers (the "Adviser"). It is a subsidiary of Federated Investors. All of the voting securities of Federated Investors are owned by a trust, the trustees of which are John F. Donahue, his wife, and his son, J. Christopher Donahue. John F. Donahue, Chairman and Trustee of Federated Advisers, is Chairman and Trustee of Federated Investors and Chairman and Director of the Corporation. John A. Staley, IV, President and Trustee of Federated Advisers, is Vice President and Trustee of Federated Investors, Executive Vice President of Federated Securities Corp., and Vice President of the Corporation. J. Christopher Donahue, Trustee of Federated Advisers, is President and Trustee of Federated Investors, President and Director of Federated Administrative Services, Inc., and President and Director of the Corporation. John W. McGonigle, Vice President, Secretary and Trustee of Federated Advisers, is Trustee, Vice President, Secretary and General Counsel of Federated Investors, Executive Vice President, Secretary and Director of Federated Administrative Services, Inc., Executive Vice President and Director of Federated Securities Corp., and Vice President and Secretary of the Corporation.

The Adviser shall not be liable to the Corporation, the Fund, or any shareholder of the Fund for any losses that may be sustained in the purchase, holding, or sale of any security, or for anything done or omitted by it, except acts or omissions involving willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties imposed upon it by its contract with the Corporation.

ADVISORY FEES

For its advisory services, Federated Advisers receives an annual investment advisory fee for the Fund as described in the prospectus. For the fiscal year ended October 31, 1993, for the period ended October 31, 1992, and for the fiscal years ended December 31, 1991 and 1990, the Adviser earned, with respect to this Fund, $671,751, $113,009, $52,851, and $47,436, respectively, of which $548,973, $113,009, $52,851 and $47,436 was voluntarily waived because of undertakings to limit the Fund's expenses. In addition, for the fiscal year ended October 31, 1993, the period ended October 31, 1992 and the fiscal years

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ended December 31, 1991 and 1990, the Adviser voluntarily reimbursed, with respect to this Fund, $0, $200,470, $221,961 and $230,000, respectively, of other operating expenses because of the same undertakings to limit the Fund's expenses.

STATE EXPENSE LIMITATIONS

The Adviser has undertaken to comply with the expense limitations established by certain states for investment companies whose shares are registered for sale in those states. If the Fund's normal operating expenses (including the investment advisory fee, but not including brokerage commissions, interest, taxes, and extraordinary expenses) exceed 2 1/2% per year of the first $30 million of average net assets, 2% per year of the next $70 million of average net assets, and 1 1/2% per year of the remaining average net assets, the Adviser will reimburse the Fund for its expenses over the limitation.

If the Fund's monthly projected operating expenses exceed this limitation, the investment advisory fee paid will be reduced by the amount of the excess, subject to an annual adjustment. If the expense limitation is exceeded, the amount to be reimbursed by the Adviser will be limited, in any single fiscal year, by the amount of the investment advisory fee.

This arrangement is not part of the advisory contract and may be amended or rescinded in the future.

ADMINISTRATIVE ARRANGEMENTS

For the fiscal year ended October 31, 1993, the period ended October 31, 1992 and for the fiscal years ended December 31, 1991 and 1990, the distributor paid $0, $0, $125, and $343 respectively, to brokers and dealers for distribution and administrative services and to administrators for administrative services. These payments were made prior to the reorganization of the Fund into a portfolio of the Corporation. The administrative services include, but are not limited to, providing office space, equipment, telephone facilities, and various personnel, including clerical, supervisory, and computer, as is necessary or beneficial to establish and maintain shareholders' accounts and records, process purchase and redemption transactions, process automatic investments of client account cash balances, answer routine client inquiries regarding the Fund, assist clients in changing dividend options, account designations, and addresses, and providing such other services as the Fund may reasonably request.

ADMINISTRATIVE SERVICES

Federated Administrative Services, Inc., a subsidiary of Federated Investors, provides administrative personnel and services to the Fund at approximate cost. For the fiscal year ended October 31, 1993, the period ended October 31, 1992, and for the fiscal years ended December 31, 1991 and 1990, the Fund incurred costs for administrative services of $288,504, $131,503, $164,561, and $117,913 respectively. These payments were made prior to the reorganization of the Fund into a portfolio of the Corporation. John A. Staley, IV, an officer of the Corporation, and Dr. Henry J. Gailliot, an officer of Federated Advisers, the Adviser to the Corporation, each hold approximately 15% and 20%, respectively, of the outstanding common stock and serve as directors of Commercial Data Services, Inc., a company which provides computer processing services to Federated Administrative Services, Inc. For the period ended October 31, 1993, the period ended October 31, 1992, and for the fiscal years ended December 31, 1991 and 1990, Federated Administrative Services, Inc., paid approximately, $165,431, $189,741, $196,783, and $169,379 respectively, for services provided by Commercial Data Services, Inc.

BROKERAGE TRANSACTIONS

When selecting brokers and dealers to handle the purchase and sale of portfolio instruments, the Adviser looks for prompt execution of the order at a favorable price. In working with dealers, the Adviser will generally use those who are recognized dealers in specific portfolio instruments, except when a better price and execution of the order can be obtained elsewhere. The Adviser makes decisions on portfolio transactions and selects brokers and dealers subject to

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review by the Board of Directors.

The Adviser may select brokers and dealers who offer brokerage and research services. These services may be furnished directly to the Fund or to the Adviser and may include:

- - advice as to the advisability of investing in securities;

- - security analysis and reports;

- - economic studies;

- - industry studies;

- - receipt of quotations for portfolio evaluations; and

- - similar services.

The Adviser and its affiliates exercise reasonable business judgment in selecting brokers who offer brokerage and research services to execute securities transactions. They determine in good faith that commissions charged by such persons are reasonable in relationship to the value of the brokerage and research services provided.

Research services provided by brokers may be used by the Adviser or by affiliates of Federated Investors in advising Federated Funds and other accounts. To the extent that receipt of these services may supplant services for which the Adviser or its affiliates might otherwise have paid, it would tend to reduce their expenses.

PURCHASING SHARES

Except under certain circumstances described in the prospectus, shares are sold at their net asset value plus a sales charge on days the New York Stock Exchange is open for business. The procedure for purchasing shares of the Fund is explained in the prospectus under "Investing in the Fund."

PURCHASES BY SALES REPRESENTATIVES, DIRECTORS, AND EMPLOYEES

Directors, employees, and sales representatives of the Fund, Federated Advisers, and Federated Securities Corp., or their affiliates, or any investment dealer who has a sales agreement with Federated Securities Corp., their spouses and their children under 21, may buy shares at net asset value without a sales charge. Shares may also be sold without a sales charge to trusts or pension or profit-sharing plans for these persons.

These sales are made with the purchaser's written assurance that the purchase is for investment purposes and that the securities will not be resold except through redemption by the Fund.

CONVERSION TO FEDERAL FUNDS

It is the Fund's policy to be as fully invested as possible so that maximum interest may be earned. To this end, all payments from shareholders must be in federal funds or be converted into federal funds before shareholders begin to earn dividends. State Street Bank and Trust Company acts as the shareholder's agent in depositing checks and converting them to federal funds.

DETERMINING NET ASSET VALUE

Net asset value generally changes each day. The days on which net asset value is calculated by the Fund are described in the prospectus.

DETERMINING MARKET VALUE OF SECURITIES

Market values of the Fund's portfolio securities are determined as follows:

- - according to the last sale price on a national securities exchange, if available;

- - in the absence of recorded sales for equity securities, according to the mean between the current closing bid and asked prices and for bonds and other fixed income securities as determined by an independent pricing service;

- - for short-term obligations, according to the mean bid and asked prices, as furnished by an independent pricing service, or for short-term obligations

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with maturities of less than 60 days, at amortized cost unless the Board determines this is not fair value; or

- - at fair value as determined in good faith by the Fund's Board of Directors.

Prices provided by independent pricing services may be determined without relying exclusively on quoted prices. Pricing services may consider:

- - yield;

- - quality;

- - coupon rate;

- - maturity;

- - type of issue;

- - trading characteristics; and

- - other market data.

Over-the-counter put options will be valued at the mean between the bid and the asked prices.

REDEEMING SHARES

Shares of the Fund are redeemed at the next computed net asset value after State Street Bank receives the redemption request. Redemption procedures are explained in the prospectus under "Redeeming Shares." Although State Street Bank does not charge for telephone redemptions, it reserves the right to charge a fee for the cost of wire-transferred redemptions of less than $1,000.

EXCHANGE PRIVILEGE

The Securities and Exchange Commission has issued an order exempting the Corporation from certain provisions of the Investment Company Act of 1940. As a result, Fund shareholders are allowed to exchange all or some of their shares for shares in other Fortress Funds or certain Federated Funds which are sold with a sales charge different from that of the Fund's or with no sales charge and which are advised by subsidiaries or affiliates of Federated Investors. These exchanges are made at net asset value plus the difference between the Fund's sales charge already paid and any sales charge of the fund into which the shares are to be exchanged, if higher. The order also allows certain other funds, including funds that are not advised by subsidiaries or affiliates of Federated Investors, which do not have a sales charge, to exchange their shares for Fund shares on a basis other than their current offering price. These

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exchanges may be made to the extent that such shares were acquired in a prior exchange, at net asset value, for shares of a Federated Fund carrying a sales charge.

REDUCED SALES CHARGE

If a shareholder making such an exchange qualifies for a reduction or elimination of the sales charge, the shareholder must notify Federated Securities Corp. or State Street Bank in writing.

REQUIREMENTS FOR EXCHANGE

Shareholders using this privilege must exchange shares having a net asset value of at least $1,500. Before the exchange, the shareholder must receive a prospectus of the fund for which the exchange is being made.

This privilege is available to shareholders residing in any state in which the fund shares being acquired may be sold. Upon receipt of proper instructions and required supporting documents, shares submitted for exchange are redeemed and the proceeds invested in shares of the other fund.

Further information on the exchange privilege and prospectuses for Fortress Funds or certain of the Funds are available by calling the Fund.

TAX CONSEQUENCES

Exercise of this exchange privilege is treated as a sale for federal income tax

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purposes. Depending upon the circumstances, a short or long-term capital gain or loss may be realized.

MAKING AN EXCHANGE

Instructions for exchanges for Fortress Funds or certain of the Funds must be given in writing by the shareholder. Written instructions may require a signature guarantee.

TAX STATUS

THE FUND'S TAX STATUS

The Fund will pay no federal income tax because it expects to meet the requirements of Subchapter M of the Internal Revenue Code, as amended, applicable to regulated investment companies and to receive the special tax treatment afforded to such companies. To qualify for this treatment, the Fund must, among other requirements:

- - derive at least 90% of its gross income from dividends, interest, and gains from the sale of securities;

- - derive less than 30% of its gross income from the sale of securities held less than three months;

- - invest in securities within certain statutory limits; and

- - distribute to its shareholders at least 90% of its net income earned during the year.

SHAREHOLDERS' TAX STATUS

Shareholders are subject to federal income tax on dividends and capital gains received as cash or additional shares. No portion of any income dividend paid by the Fund is eligible for the dividends received deduction available to corporations. These dividends, and any short-term capital gains, are taxable as ordinary income.

CAPITAL GAINS

Shareholders will pay federal tax at capital gains rates on long-term capital gains distributed to them regardless of how long they have held the Fund shares.

TOTAL RETURN

The Fund's average annual total returns for the one-year and five-year periods ended October 31, 1993 and for the period from July 8, 1988 (effective date of the Fund's registration statement) to October 31, 1993 were 18.40%, 12.35% and 11.41%, respectively.

The average annual total return for the Fund is the average compounded rate of return for a given period that would equate a $1,000 initial investment to the ending redeemable value of that investment. The ending redeemable value is computed by multiplying the number of shares owned at the end of the period by the offering price per share at the end of the period. The number of shares owned at the end of the period is based on the number of shares purchased at the beginning of the period with $1,000, less any applicable sales load, adjusted over the period by any additional shares, assuming the monthly reinvestment of all dividends and distributions. Any applicable redemption fee is deducted from the ending value of the investment based on the lesser of the original purchase price or the net asset value of shares redeemed.

YIELD

The Fund's yield for the thirty-day period ended October 31, 1993, was 6.65%.

The yield for the Fund is determined each day by dividing the net investment income per share (as defined by the Securities and Exchange Commission) earned by the Fund over a thirty-day period by the maximum offering price per share of the Fund on the last day of the period. This value is then annualized using semi-annual compounding. This means that the amount of income generated during the thirty-day period is assumed to be generated each month over a 12-month

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period and is reinvested every six months. The yield does not necessarily reflect income actually earned by the Fund because of certain adjustments required by the Securities and Exchange Commission and, therefore, may not correlate to the dividends or other distributions paid to shareholders. To the extent that financial institutions and broker/dealers charge fees in connection with services provided in conjunction with an investment in the Fund, performance will be reduced for those shareholders paying those fees.

PERFORMANCE COMPARISONS

The Fund's performance depends upon such variables as:

- - portfolio quality;

- - average portfolio maturity;

- - type of instruments in which the portfolio is invested;

- - changes in interest rates and market value of portfolio securities;

- - changes in Fund's expenses; and

- - various other factors.

The Fund's performance fluctuates on a daily basis largely because net earnings and offering price per share fluctuate daily. Both net earnings and offering price per share are factors in the computation of yield and total return. From time to time, the Fund may advertise its performance compared to similar funds or portfolios using certain indices, reporting services, and financial publications. These may include the following:

- - SHEARSON LEHMAN GOVERNMENT/CORPORATE (TOTAL) INDEX is comprised of approximately 5,000 issues which include: non-convertible bonds publicly issued by the U.S. government or its agencies; corporate bonds guaranteed by the U.S. government and quasi-federal corporations; and publicly issued, fixed rate, non-convertible domestic bonds of companies in industry, public utilities, and finance. The average maturity of these bonds approximates nine years. Tracked by Shearson Lehman Hutton, Inc., the index calculates total returns for one-month, three-month, twelve-month, and ten-year periods and year-to-date.

- - SALOMON BROTHERS AAA-AA CORPORATES INDEX calculates total returns of approximately 775 issues which include long-term, high grade domestic corporate taxable bonds, rated AAA-AA with maturities of twelve years or more and companies in industry, public utilities, and finance.

- - MERRILL LYNCH CORPORATE & GOVERNMENT MASTER INDEX is an unmanaged index comprised of approximately 4,821 issues which include corporate debt obligations rated BBB or better and publicly issued, non-convertible domestic debt of the U.S. government or any agency thereof. These quality parameters are based on composites of ratings assigned by Standard and Poor's Corporation and Moody's Investors Service, Inc. Only notes and bonds with a minimum maturity of one year are included.

- - MERRILL LYNCH CORPORATE MASTER is an unmanaged index comprised of approximately 4,356 corporate debt obligations rated BBB or better. These quality parameters are based on composites of ratings assigned by Standard and Poor's Corporation and Moody's Investors Service, Inc. Only bonds with a minimum maturity of one year are included.

- - LIPPER ANALYTICAL SERVICES, INC., ranks funds in various fund categories by making comparative calculations using total return. Total return assumes the reinvestment of all capital gains distributions and income dividends and takes into account any change in net asset value over a specific period of time. From time to time, the Fund will quote its Lipper ranking in advertising and sales literature.

- - THE LEHMAN BROTHERS CORPORATE BOND INDEX is comprised of a large universe of bonds issued by industrial, utility and financial companies which have a minimum rating of Baa by Moody's Investors Service, Inc., BBB by Standard and Poor's Corporation or, in the case of bank bonds not rated by either of the previously mentioned services, BBB by Fitch Investors Service, Inc.

- - MORNINGSTAR, INC., an independent rating service, is the publisher of the bi-weekly Mutual Fund Values. Mutual Fund Values rates more than 1,000 NASDAQ-listed Mutual Funds of all types, according to their risk-adjusted returns. The maximum rating is five stars, and ratings are effective for two

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weeks.

Investors may use such indices in addition to the Fund's prospectus to obtain a more complete view of the Fund's performance before investing. Of course, when comparing Fund performance to any index, conditions such as

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composition of the index and prevailing market conditions should be considered in assessing the significance of such comparisons.

When comparing funds using reporting services, or total return and yield, investors should take into consideration any relevant differences in funds such as permitted portfolio compositions and methods used to value portfolio securities and compute offering price.

Advertisements and other sales literature for the Fund may quote total returns which are calculated on non-standardized base periods. These total returns represent the historic change in the value of an investment in the Fund based on monthly reinvestment of dividends over a specified period of time.

From time to time, the Fund may advertise its performance, using charts, graphs, and descriptions, compared to federally insured bank products including certificates of deposit and time deposits and to money market funds using the Lipper Analytical Services, Inc., money market instruments average.

Advertisements may quote performance information which does not reflect the effect of the sales load.

DURATION

Duration is a commonly used measure of the potential volatility in the price of a bond, or other fixed income security, or in a portfolio of fixed income securities, prior to maturity. Volatility is the magnitude of the change in the price of a bond relative to a given change in the market rate of interest. A bond's price volatility depends on three primary variables: the bond's coupon rate; maturity date; and the level of market yields of similar fixed income securities. Generally, bonds with lower coupons or longer maturities will be more volatile than bonds with higher coupons or shorter maturities. Duration combines these variables into a single measure.

Duration is calculated by dividing the sum of the time-weighted values of the cash flows of a bond or bonds, including interest and principal payments, by the sum of the present values of the cash flows. When the Fund invests in mortgage pass-through securities, its duration will be calculated in a manner which requires assumptions to be made regarding future principal prepayments. A more complete description of this calculation is available upon request from the Fund.

APPENDIX

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STANDARD AND POOR'S CORPORATION CORPORATE BOND RATINGS

AAA--Debt rated AAA has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

AA--Debt rated AA has a very strong capacity to pay interest and repay principal and differs from the higher rated issues only in small degree.

A--Debt rated A has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.

BBB--Debt rated BBB is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

BB, B--Debt rated BB or B, is regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB indicates a low degree of speculation.

MOODY'S INVESTORS SERVICE, INC., CORPORATE BOND RATINGS

AAA--Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt

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edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

AA--Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long term risks appear somewhat larger than in Aaa securities.

A--Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment some time in the future.

BAA--Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

BA--Bonds which are Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B--Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

FITCH INVESTORS SERVICE, INC., LONG-TERM DEBT RATINGS

AAA--Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

AA--Bonds considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated AAA. Because bonds rated in the AAA and AA categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally rated F-1+.

A--Bonds considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

STANDARD AND POOR'S CORPORATION COMMERCIAL PAPER RATINGS

A-1--This designation indicates that the degree of safety regarding timely payment is either overwhelming or very strong. Those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign designation.

A-2--Capacity for timely payment on issues with this designation is strong. However, the relative degree of safety is not as high as for issues designated A-1.

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MOODY'S INVESTORS SERVICE, INC., COMMERCIAL PAPER RATINGS

P-1--Issuers rated PRIME-1 (or related supporting institutions) have a superior capacity for repayment of short-term promissory obligations. Prime-1 repayment capacity will normally be evidenced by the following characteristics: conservative capitalization structures with moderate reliance on debt and ample asset protection; broad margins in earning coverage of fixed financial charges and high internal cash generation; well established access to a range of financial markets and assured sources of alternate liquidity.

P-2--Issuers rated PRIME-2 (or related supporting institutions) have a strong capacity for repayment of short-term promissory obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, will be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

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FITCH INVESTORS SERVICE, INC., SHORT-TERM DEBT RATINGS

F-1+--Exceptionally Strong Credit Quality. Issues assigned this rating are regarded as having the strongest degree of assurance for timely payment.

F-1--Very Strong Credit Quality. Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than issues rated F-1+.

F-2--Good Credit Quality. Issues carrying this rating have a satisfactory degree of assurance for timely payment.

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