

SECURITIES AND EXCHANGE COMMISSION

FORM N-30D

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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 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 and Class C Shares dated December 31, 1994, 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, 1994

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SUMMARY OF FUND EXPENSES--CLASS A SHARES

SHAREHOLDER TRANSACTION EXPENSES		<C>	<C>
Maximum Sales Load Imposed on Purchases (as a percentage of offering price).....			5.50%
Maximum Sales Load Imposed on Reinvested Dividends (as a percentage of offering price).....			None
Contingent Deferred Sales Charge (as a percentage of original purchase price or redemption proceeds, as applicable) (1).....			0.00%
Redemption Fee (as a percentage of amount redeemed, if applicable).....			None
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 (after waiver) (3).....			0.04%
Total Other Expenses (after expense reimbursement).....			1.21%
Shareholder Services Fee (after waiver) (4).....	0.21%		
Total Class A Shares Operating Expenses (5).....			1.25%

(1) Shareholders who purchase shares with the proceeds of a redemption of shares of a mutual fund sold with a sales load and not distributed by Federated Securities Corp., prior to June 1, 1994, and between December 5, 1994 and January 6, 1995, will be charged a contingent deferred sales charge by the Fund's distributor of 0.50 of 1% for redemptions made within one year of purchase. For a more complete description, see "Contingent Deferred Sales Charge."

(2) The management fee has been reduced to reflect the voluntary waiver of the management fee. The advisor 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 and losses.

(3) The maximum 12b-1 fee is 0.25%.

(4) The maximum shareholder services fee is 0.25%.

(5) The Total Class A Shares Operating Expenses in the table above are based on expenses expected during the fiscal year ending October 31, 1995. The Total Class A Shares Operating Expenses were 1.25% for the fiscal year ended October 31, 1994, and would have been 4.04% absent the voluntary waiver of the management fee and a portion of the 12b-1 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.

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

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.....	\$ 72	\$92	\$ 120	\$198
You would pay the following expenses on the same investment, assuming no redemption.....	\$ 67	\$92	\$ 120	\$198

</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 Class C Shares. Class C Shares and Class A Shares are subject to certain of the same expenses, however, Class C Shares are not subject to a sales load, but are subject to a 12b-1 fee of 0.75% 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 LLP, Independent Auditors' report on page 37.

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,		
	1994	1993	1992*
	-----	-----	-----
<S>	<C>	<C>	<C>
NET ASSET VALUE, BEGINNING OF PERIOD	\$13.38	\$11.84	\$12.00
-----	-----	-----	-----
INCOME FROM INVESTMENT OPERATIONS			
-----	-----	-----	-----
Net investment income	0.12	0.09	0.11
-----	-----	-----	-----
Net realized and unrealized gain (loss) on investments	(1.25)	1.71	(0.18)
-----	-----	-----	-----
Total from investment operations	(1.13)	1.80	(0.07)
-----	-----	-----	-----
LESS DISTRIBUTIONS			
-----	-----	-----	-----
Dividends to shareholders from net investment income	(0.12)	(0.10)	(0.09)
-----	-----	-----	-----
Distributions to shareholders from net realized gain on investment transactions	(0.82)	(0.16)	--
-----	-----	-----	-----
Total distributions	(0.94)	(0.26)	(0.09)
-----	-----	-----	-----
NET ASSET VALUE, END OF PERIOD	\$11.31	\$13.38	\$11.84
-----	-----	-----	-----
TOTAL RETURN**	(8.43%)	15.34%	(0.61%)
-----	-----	-----	-----
RATIOS TO AVERAGE NET ASSETS			
-----	-----	-----	-----
Expenses	1.25%	1.25%	1.17% (a)
-----	-----	-----	-----
Net investment income	1.00%	0.73%	1.19% (a)
-----	-----	-----	-----
Expense waiver/reimbursement (b)	2.79%	2.37%	1.33% (a)
-----	-----	-----	-----
SUPPLEMENTAL DATA			
-----	-----	-----	-----
Net assets, end of period (000 omitted)	\$9,880	\$11,609	\$6,540
-----	-----	-----	-----
Portfolio turnover rate	86%	74%	29%
-----	-----	-----	-----

</TABLE>

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

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

(a) Computed on an annualized basis.

(b) This voluntary expense decrease is reflected in both the expense and net investment income ratios shown above.

Further information about the Fund's performance is contained in the Fund's annual report for the fiscal year ended October 31, 1994, 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 of the Corporation (the "Directors") has established two classes of shares, known as Class A Shares and Class C Shares. This prospectus relates only to the Class A Shares (the "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 load and are redeemed at net asset value; however, a contingent deferred sales charge 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 "Federated Liberty."

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;

- 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 communications utilities;
- Limited Term Fund, providing a high level of current income consistent with minimum fluctuation in principal through investment grade securities;
- Limited Term Municipal Fund, providing a high level of current income exempt from federal regular income tax consistent with the preservation of principal, primarily limited to municipal securities;
- Michigan Intermediate Municipal Trust, providing current income exempt from federal regular income tax and personal income taxes imposed by the state of Michigan and Michigan municipalities, primarily through Michigan municipal securities;
- Pennsylvania Municipal Income Fund, providing current income exempt from federal regular income tax and the personal income taxes imposed by the Commonwealth of Pennsylvania, primarily through Pennsylvania municipal securities;
- Strategic Income Fund, providing a high level of current income, primarily through domestic and foreign corporate debt obligations;
- Tax-Free Instruments Trust, providing current income consistent with the stability of principal and exempt from federal income tax, through high-quality, short-term municipal securities; and
- World Utility Fund, providing total return primarily through securities issued by domestic and foreign companies in the utilities industries.

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.; Capital Preservation Fund; 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; Stock and Bond Fund, Inc.; and Strategic Income Fund.

No sales load 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, Federated Advisers (the "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 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 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 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 Ratings Group ("S&P") or Fitch Investors Service, Inc., or Baa or higher by Moody's Investors Service, Inc. ("Moody's")) are high-yield, high-risk bonds (i.e., "junk 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 Prospectus.

The prices of fixed income securities generally fluctuate inversely to the direction of interest rates.

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 Adviser, 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 securities on a when-issued or delayed delivery basis. These transactions are arrangements in which the Fund purchases securities with payment and delivery scheduled for a future time. The seller's failure to complete the transaction may cause the Fund to miss a price or yield considered to be advantageous. 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. Accordingly, the Fund may pay more/less than the market value of the securities on the settlement date.

The Fund may dispose of a commitment prior to settlement if the Adviser deems it appropriate to do so. In addition, the Fund may enter in transactions to sell its purchase commitments to third parties at current market values and simultaneously acquire other commitments to purchase similar securities at later dates. The Fund may realize short-term profits or losses upon the sale of such commitments.

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 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 Adviser 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 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 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.

There is the risk that when lending portfolio securities, the securities may not be available to the Fund on a timely basis and the Fund may, therefore, lose the opportunity to sell the securities at a desirable price. In addition, in the event that a borrower of securities would file for bankruptcy or become insolvent, disposition of the securities may be delayed pending court action.

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 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; nor
- 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; nor
- 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, 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 approxi-

mately 3,500 client institutions nationwide. Through these same client institutions, individual shareholders also have access to this same level of investment expertise.

Peter R. Anderson has been the Fund's senior portfolio manager since August, 1994. Mr. Anderson joined Federated Investors in 1972 as, and is presently, a Senior Vice President of the Fund's investment adviser. Mr. Anderson is a Chartered Financial Analyst and received his M.B.A. in Finance from the University of Wisconsin.

Gregory M. Melvin is the Fund's portfolio manager and has participated in the management of the Fund since January, 1987. 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.

James E. Grefenstette has been the Fund's co-portfolio manager since December, 1994. Mr. Grefenstette joined Federated Investors in 1992 and has been an Assistant Vice President of the Fund's investment adviser since 1994. Mr. Grefenstette served as an investment analyst of the adviser from 1992 to 1994. Mr. Grefenstette served as a credit analyst with Westinghouse Credit Corporation from 1990 to 1992, and as a bond trader and then an Investment Officer with Pittsburgh National Bank from 1987 to 1990. Mr. Grefenstette received his M.S.I.A. from Carnegie Mellon University.

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 AND SHAREHOLDER SERVICES PLANS. Under a distribution plan adopted in accordance with Investment Company Act Rule 12b-1 (the "Distribution Plan"), the Fund may pay to the distributor an amount, computed at an annual rate of up to 0.25 of 1% of the average daily net asset value of Shares to finance any activity which is principally intended to result in the sale of Shares subject to the Distribution Plan. The distributor may select financial institutions such as banks, fiduciaries, custodians for public funds, investment advisers, and broker/dealers to provide sales support services as agents for their clients or customers.

The Distribution 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, 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 amount or may earn a profit from future payments made by the Fund under the Distribution Plan.

In addition, the Fund has adopted a Shareholder Services Plan (the "Services Plan") under which it may make payments up to 0.25 of 1% of the average daily net asset value of Shares to obtain certain personal services for shareholders and the maintenance of shareholder accounts ("shareholder services"). The Fund has entered into a Shareholder Services Agreement with Federated Shareholder Services, a subsidiary of Federated Investors, under which Federated Shareholder Services will either

perform shareholder services directly or will select financial institutions to perform shareholder services. Financial institutions will receive fees 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 Fund and Federated Shareholder Services.

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 load on Shares.

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 administrative 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 law.

ADMINISTRATION OF THE FUND

ADMINISTRATIVE SERVICES. Federated Administrative Services, a subsidiary of Federated Investors, provides administrative personnel and services (including certain legal and financial reporting services) necessary to operate the Corporation and the Fund. Federated Administrative Services provides these at an annual rate which relates to the average aggregate daily net assets of all funds advised by subsidiaries of Federated Investors (the "Federated Funds") as specified below:

<TABLE>
<CAPTION>

MAXIMUM ADMINISTRATIVE FEE	AVERAGE AGGREGATE DAILY NET ASSETS OF THE FEDERATED FUNDS
<S>	<C>
0.150 of 1%	on the first \$250 million
0.125 of 1%	on the next \$250 million
0.100 of 1%	on the next \$250 million
0.075 of 1%	on assets in excess of \$750 million

</TABLE>

The administrative fee received during any fiscal year shall be at least \$125,000 per portfolio and \$30,000 per each additional class of shares. Federated Administrative Services may choose voluntarily to waive a portion of its fee.

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 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, L.L.P., 2101 L Street, N.W., Washington, D.C. 20037.

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

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 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 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 Federated Services Company, P.O. Box 8604, Boston, Massachusetts 02266-8604.

Orders by mail are considered received after payment by check is converted by the transfer agent's bank, State Street Bank, into federal funds. This is generally the next business day after the transfer agent's 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: Federated Services Company, c/o 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 load as follows:

<TABLE>
<CAPTION>

SALES LOAD AS A PERCENTAGE OF	SALES LOAD AS A PERCENTAGE OF	DEALER CONCESSION AS A PERCENTAGE OF
----------------------------------	----------------------------------	---

AMOUNT OF TRANSACTION	PUBLIC OFFERING PRICE	NET AMOUNT INVESTED	PUBLIC OFFERING PRICE
<S>	<C>	<C>	<C>
Less than \$50,000.....	5.50%	5.82%	5.00%
\$50,000 but less than \$100,000.....	4.50%	4.71%	4.00%
\$100,000 but less than \$250,000.....	3.75%	3.90%	3.25%
\$250,000 but less than \$500,000.....	2.50%	2.56%	2.25%
\$500,000 but less than \$1,000,000.....	2.00%	2.04%	1.80%
\$1,000,000 or greater.....	0.00%	0.00%	0.25%*

* See Sub-section entitled "DEALER CONCESSION" on page 14.

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 load is imposed on purchases made by qualified retirement plans with over \$1 million invested in funds available in the Liberty Family Retirement Program.

No sales load is imposed for Shares purchased through bank trust departments or investment advisers registered under the Investment Advisers Act of 1940, as amended, or retirement plans where the third party administrator has entered into certain arrangements with Federated Securities Corp. or its affiliates. However, investors who purchase Shares through a trust department or investment adviser may be charged an additional service fee by that institution.

DEALER CONCESSION. In addition to the dealer concession as noted in the table on the preceding page, the distributor may offer to pay dealers up to 100% of the sales load retained by it. Such payments may take the form of cash or promotional incentives, such as payment of certain expenses of qualified employees and their spouses to attend informational meetings about the Fund or other special events at recreational-type facilities, or of items of material value. In some instances, these incentives will be made available only to dealers whose employees have sold or may sell a significant amount of Shares. On purchases of \$1 million or more, the investor pays no sales load; however, the distributor will make twelve monthly payments to the dealer totaling 0.25% of the public offering price over the first year following the purchase. Such payments are based on the original purchase price of the Shares outstanding at each month end.

The sales load 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 load 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.

ELIMINATING OR REDUCING THE SALES LOAD

The sales load can be eliminated or 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 on the preceding page, larger purchases eliminate or reduce the sales load 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 load. To receive the sales load elimination or

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 load on the additional purchase according to the schedule now in effect would be 3.75%, not 4.50%.

To receive the sales load elimination or 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 eliminate or reduce the sales load after it confirms the purchases.

LETTER OF INTENT. If a shareholder intends to purchase at least \$50,000 of shares in the funds in the Liberty Family of Funds over the next 13 months, the sales load may be reduced by signing a letter of intent to that effect. This letter of intent includes a provision for a sales load adjustment depending on the amount actually purchased within the 13-month period and a provision for the custodian to hold 5.50% of the total amount intended to be purchased in escrow (in Shares) until such purchase is completed.

The 5.50% 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 load.

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 load 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 load. 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 load. 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 load, with the proceeds from the redemption of shares of an investment company which were sold with a sales load or commission and were not distributed by Federated Securities Corp. 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. For the period from December 5, 1994 to January 6, 1995, Federated Securities Corp. will offer to pay financial institutions an amount equal to .50% of 1% of the net asset value of Class A Shares purchased by their clients with the proceeds from redemptions of unaffiliated mutual fund shares. Financial institutions may elect to waive this initial payment; such waiver will result in the waiver by the Fund of the otherwise applicable contingent deferred sales charge.

CONCURRENT PURCHASES. For purposes of qualifying for a sales load elimination or 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 load. For example, if a shareholder concurrently invested \$30,000 in one of the other Liberty Funds with a sales load, and \$20,000 in this Fund, the sales load would be reduced.

To receive this sales load elimination or 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 eliminate or reduce the sales load 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 load. 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 load, 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, contact Federated Securities Corp. and consult a tax adviser.

EXCHANGE PRIVILEGE

In order to provide greater flexibility to Fund shareholders whose investment objectives have changed, 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 load different from that of the Fund's or with no sales load; exchanges into these Funds are made at net asset value plus the difference between the Fund's sales load and contingent deferred sales charge already paid and any sales load 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 Class A Shares of other funds offered under the plan at net asset value without a contingent deferred sales charge.

REDUCED SALES LOAD

If a shareholder making such an exchange qualifies for an elimination or reduction of the sales load, 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 equal to the minimum investment requirements of the fund into which the exchange is being made. 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.

Shares in certain Federated Funds which are advised by subsidiaries or affiliates of Federated Investors may also be exchanged for Shares. Such exchanges may be subject to a contingent deferred sales charge and possibly a sales load.

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 Federated Services Company, c/o State Street Bank and Trust Company, Two Heritage Drive, North Quincy, Massachusetts 02171.

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

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
- 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 with proceeds of a redemption of shares of a mutual fund sold with a sales load and not distributed by Federated Securities Corp. prior to June 1, 1994, and during the period from December 5, 1994 to January 6, 1995, will be charged a contingent deferred sales charge by the Fund's distributor of .50 of 1% for redemptions made within one year from the date of purchase. Purchases under the program made after that date will not be subject to any type of contingent

deferred sales charge. 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.

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, 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 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 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 contingent deferred sales charge will be charged for redemption from the Liberty Family Retirement Program.

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 load, 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 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 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 contingent deferred sales charge, which, if excluded, would increase the total return and yield.

Total return and yield will be calculated separately for Class A Shares and Class C Shares. Because Class C Shares may be subject to a shareholder services fee and a higher 12b-1 fee than Class A Shares, total return and yield for Class A Shares will likely 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 load. 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 up to .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.

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

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

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

CAPITAL GROWTH FUND

FINANCIAL HIGHLIGHTS--INVESTMENT SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

Reference is made to the Report of Ernst & Young LLP, Independent Auditors' report on page 37.

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,			YEAR ENDED DECEMBER 31,		
	1994****	1993	1992**	1991	1990	1989*
<S>	<C>	<C>	<C>	<C>	<C>	<C>
NET ASSET VALUE, BEGINNING OF PERIOD	\$13.38	\$11.84	\$12.00	\$ 9.11	\$ 9.97	\$10.00
INCOME FROM INVESTMENT OPERATIONS						
Net investment income	0.15	0.13	0.12	0.31	0.32	0.03

Net realized and unrealized gain (loss) on investments	(1.25)	1.71	(0.18)	2.91	(0.86)	(0.04)
Total from investment operations	(1.10)	1.84	(0.06)	3.22	(0.54)	(0.01)
LESS DISTRIBUTIONS						
Dividends to shareholders from net investment income	(0.15)	(0.14)	(0.10)	(0.30)	(0.32)	(0.02)
Distributions to shareholders from net realized gain on investment transactions	(0.82)	(0.16)	--	(0.02)	--	--
Distributions in excess of net investment income (a)	--	--	--	(0.01)	--	--
Total distributions	(0.97)	(0.30)	(0.10)	(0.33)	(0.32)	(0.02)
NET ASSET VALUE, END OF PERIOD	\$11.31	\$13.38	\$11.84	\$12.00	\$ 9.11	\$ 9.97
TOTAL RETURN***	(8.20%)	15.70%	(0.53 %)	35.68%	(5.43%)	(0.02%)
RATIOS TO AVERAGE NET ASSETS						
Expenses	1.03%	1.00%	1.00 % (b)	1.00%	1.00%	1.19% (b)
Net investment income	1.17%	0.98%	1.28 % (b)	2.73%	3.54%	4.21% (b)
Expense waiver/reimbursement (c)	2.73%	2.37%	1.50 % (b)	1.50%	1.50%	0.78% (b)
SUPPLEMENTAL DATA						
Net assets, end of period (000 omitted)	\$14	\$14,836	\$18,161	\$13,513	\$7,484	\$5,525
Portfolio turnover rate	86%	74%	29 %	57%	83%	0%

</TABLE>

* 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.

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

**** As of December 9, 1994, Investment shares of the Capital Growth Fund had no shareholders and were no longer offered for public investment.

(a) These distributions do not represent a return of capital for federal tax purposes.

(b) Computed on an annualized basis.

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

(See Notes which are an integral part of the Financial Statements)

CAPITAL GROWTH FUND

FINANCIAL HIGHLIGHTS--CLASS C SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

Reference is made to the Report of Ernst & Young LLP, Independent Auditors' report on page 37.

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,	
	1994	1993*
<S>	<C>	<C>
NET ASSET VALUE, BEGINNING OF PERIOD	\$13.36	\$12.39

INCOME FROM INVESTMENT OPERATIONS		

Net investment income	0.04	(0.01)

Net realized and unrealized gain (loss) on investments	(1.23)	0.98

Total from investment operations	(1.19)	0.97

LESS DISTRIBUTIONS		

Dividends to shareholders from net investment income	(0.04)	--

Distributions to shareholders from net realized gain on investment transactions	(0.82)	--

Total distributions	(0.86)	--

NET ASSET VALUE, END OF PERIOD	\$11.31	\$13.36

TOTAL RETURN**	(8.90%)	7.83%

RATIOS TO AVERAGE NET ASSETS		

Expenses	2.00%	2.00% (a)

Net investment income	0.35%	(0.18%) (a)

Expense waiver/reimbursement (b)	2.73%	2.37% (a)

SUPPLEMENTAL DATA		

Net assets, end of period (000 omitted)	\$1,049	\$314

Portfolio turnover rate	86%	74%

</TABLE>

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

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

(a) Computed on an annualized basis.

(b) This voluntary expense decrease is reflected in both the expense and net investment income ratios shown above.

(See Notes which are an integral part of the Financial Statements)

CAPITAL GROWTH FUND
PORTFOLIO OF INVESTMENTS
OCTOBER 31, 1994

<TABLE>
<CAPTION>
SHARES

VALUE

 <C> <C> <S> <C>
 COMMON STOCKS--67.2%

BASIC INDUSTRY--1.2%

7,500	(a) Magma Copper Co.	\$ 134,063

CAPITAL GOODS--15.0%		

6,700	Dover Corp.	371,850
20,300	(a) Foamex International, Inc.	182,700
5,800	General Motors Corp., Class H	208,800
8,700	Greenfield Industries, Inc.	206,625
17,400	(a) Kenetech Corp.	221,850
5,800	Loral Corp.	229,825
5,800	Stewart & Stevenson Services, Inc.	223,300
Total		1,644,950

</TABLE>

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

CONSUMER DURABLES--2.6%

5,900	Chrysler Corp.	287,625
-------	----------------	---------

CONSUMER PRODUCTS--8.6%

29,000	(a) Dr. Pepper/Seven-Up Cos., Inc.	735,875
7,000	(a) Safeway, Inc.	206,500
Total		942,375

ENERGY--6.1%

6,400	Ashland Oil Co.	248,800
10,025	Cinergy Corp.	231,837
5,800	Sonat, Inc.	188,500
Total		669,137

FINANCE--9.4%

17,400	MBNA Corp.	465,450
5,941	Mellon Bank Corp.	330,468
4,600	NationsBank Corp.	227,700
Total		1,023,618

</TABLE>

CAPITAL GROWTH FUND

<TABLE>
 <CAPTION>
 SHARES VALUE

 <C> <C> <S> <C>
 COMMON STOCKS--CONTINUED

HEALTHCARE--6.3%		
6,000	(a) Foundation Health Corp.	\$ 196,500
6,700	Genentech, Inc.	340,025
3,700	(a) Genetics Institute, Inc.	149,850
	Total	686,375
INSURANCE--3.2%		
10,000	Travelers, Inc.	347,500
PROCESS INDUSTRIES--1.9%		
9,200	Praxair, Inc.	212,750
TECHNOLOGY--6.7%		
5,800	(a) Compaq Computer Corp.	232,725
10,100	(a) Integrated Device Technology	286,587
3,500	Intel Corp.	217,437
	Total	736,749
TRANSPORTATION--1.9%		
8,700	American President Cos., Ltd.	210,975
UTILITIES--2.7%		
9,200	Sprint Corp.	300,150
WASTE DISPOSAL--1.5%		
81,200	(a) Chambers Development, Inc.	162,400
	TOTAL COMMON STOCKS (IDENTIFIED COST \$6,529,180)	7,358,667
CONVERTIBLE PREFERRED STOCK--2.1%		
UTILITIES--2.1%		
4,000	(a) Nacional Financiera, SNC, PRIDES, \$6.79	232,000
	TOTAL CONVERTIBLE PREFERRED STOCKS (IDENTIFIED COST \$241,450)	232,000

</TABLE>

CAPITAL GROWTH FUND

<TABLE>		
<CAPTION>		
PRINCIPAL		VALUE
AMOUNT		
OR SHARES		
CONVERTIBLE SECURITIES--21.0%		
BASIC INDUSTRY--2.5%		
290,000	Medusa Corp., Conv. Sub. Note, 6.00%, 11/15/2003	\$ 269,700
CAPITAL GOODS--1.9%		
140,000	General Instrument Corp., Conv. Jr. Sub. Note, 5.00%, 6/15/2000	207,277
CONSUMER PRODUCTS--5.7%		

580,000	Laidlaw, Inc., Conv. Deb., (ADT) 6.00%, 1/15/99	624,225
	FINANCE--6.3%	
10,300	First USA, Inc., PRIDES, \$1.99	355,350
8,700	Sunamerica, Inc., Conv. Pfd., Series D, \$2.78	336,038
	Total	691,388
	HEALTHCARE--4.6%	
960,000	Roche Holdings, Inc., LYON, 4.75% accrual 9/23/2008	501,600
	TOTAL CONVERTIBLE SECURITIES (IDENTIFIED COST \$2,277,724)	2,294,190

</TABLE>

<TABLE>		
<C>	<C> <S>	<C>
	CONVERTIBLE BONDS--3.6%	
	CONSUMER PRODUCTS--3.6%	
\$1,360,000	Coleman Worldwide Corp., Conv. LYON, 7.25%, accrual, 5/27/2013	389,300
	TOTAL CONVERTIBLE BONDS (IDENTIFIED COST \$379,921)	389,300

</TABLE>

CAPITAL GROWTH FUND

<TABLE>		
<CAPTION>		
PRINCIPAL		VALUE
AMOUNT		
<C>	<C> <S>	<C>
	*REPURCHASE AGREEMENT--6.6%	
\$ 725,000	Morgan (J.P.) Securities, Inc., 4.82%, dated 10/31/94, due 11/1/94 (at amortized cost)	\$ 725,000
	TOTAL INVESTMENTS (IDENTIFIED COST \$10,153,275)	\$10,999,157+

</TABLE>

* The repurchase agreement is fully collateralized by U.S. government 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 \$10,246,120. The net appreciation on a federal tax basis amounts to \$753,037, which is comprised of \$1,496,035 appreciation and \$742,998 depreciation at October 31, 1994.

(a) Non-income producing.

Note: The categories of investments are shown as a percentage of net assets (\$10,943,504) at October 31, 1994.

The following abbreviations are used in this portfolio:

<TABLE>		
<S>	<C>	<C>
LYON	--	Liquid Yield Option Note
PRIDES	--	Preferred Redeemable Increased Dividend Equity Securities

</TABLE>

(See Notes which are an integral part of the Financial Statements)

CAPITAL GROWTH FUND
STATEMENT OF ASSETS AND LIABILITIES
OCTOBER 31, 1994

	<C>	<C>
ASSETS:		
Investments in securities, at value (identified cost, \$10,153,275 and tax cost, \$10,246,120)		\$10,999,157
Cash		1,413
Dividend and interest receivable		31,798
Receivable for capital stock sold		6,964
Total assets		11,039,332
LIABILITIES:		
Payable for capital stock redeemed	\$45,021	
Accrued expenses	50,807	
Total liabilities		95,828
NET ASSETS for 967,596 shares of capital stock outstanding		\$10,943,504
NET ASSETS CONSIST OF:		
Paid-in capital		\$10,174,897
Net unrealized appreciation (depreciation) of investments		845,882
Accumulated net realized gain (loss) on investments		(81,505)
Undistributed net investment income		4,230
Total Net Assets		\$10,943,504
NET ASSET VALUE AND REDEMPTION PROCEEDS PER SHARE:		
Investment Shares (net assets of \$14,871 / 1,315 shares of capital stock outstanding)		\$11.31
Class A Shares (net assets of \$9,879,565 / 873,523 shares of capital stock outstanding)		\$11.31
Class C Shares (net assets of \$1,049,068 / 92,758 shares of capital stock outstanding)		\$11.31
COMPUTATION OF OFFERING PRICE:		
Investment Shares (100/94.25 of \$11.31)*		\$12.00
Class A Shares (100/94.50 of \$11.31)*		\$11.97

</TABLE>

* See "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, 1994

	<C>	<C>	<C>
<TABLE>			
<S>			
INVESTMENT INCOME:			
Dividends			\$ 202,322
Interest			276,602
Total investment income			478,924
EXPENSES:			
Investment advisory fee		\$139,962	
Directors' fees		4,841	
Administrative personnel and services		213,197	
Custodian and portfolio accounting fees		88,866	
Transfer agent and dividend disbursing agent fees and expenses		190,895	
Shareholder services fee--Class A Shares		7,090	
Shareholder services fee--Class C Shares		1,683	
Fund share registration costs		40,658	
Auditing fees		13,498	
Legal fees		12,698	
Distribution services fee--Class A Shares		27,353	
Distribution services fee--Class C Shares		5,049	
Printing and postage		72,942	
Insurance premiums		7,017	
Taxes		4,323	
Miscellaneous		14,980	
Total expenses		845,052	
Deduct--			
Waiver of investment advisory fee	\$139,962		
Waiver of distribution services fee--Class A Shares	7,123		
Reimbursement of other operating expenses	446,250	593,335	
Net expenses			251,717
Net investment income			227,207
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:			
Net realized gain (loss) on investment transactions (identified cost basis)			1,057,990
Net change in unrealized appreciation (depreciation) of investments			(3,347,016)
Net realized and unrealized gain on investments			(2,289,026)
Change in net assets resulting from operations			\$ (2,061,819)
</TABLE>			

(See Notes which are an integral part of the Financial Statements)

CAPITAL GROWTH FUND
STATEMENT OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,	
	1994	1993
<S>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:		

OPERATIONS--		

Net investment income	\$ 227,207	\$ 226,782

Net realized gain (loss) on investment transactions (\$1,150,835 and \$303,564 net gain, respectively, as computed for federal tax purposes)	1,057,990	303,564

Change in unrealized appreciation (depreciation) of investments	(3,347,016)	3,026,413

Change in net assets resulting from operations	(2,061,819)	3,556,759

DISTRIBUTIONS TO SHAREHOLDERS--		

Dividends to shareholders from net investment income:		

Investment Shares	(127,805)	(174,344)

Class A Shares	(103,720)	(76,306)

Class C Shares	(2,570)	--

Distributions to shareholders from net realized gain on investment transactions:		

Investment Shares	(705,563)	(245,773)

Class A Shares	(686,918)	(95,185)

Class C Shares	(60,511)	--

Change in net assets from distributions to shareholders	(1,687,087)	(591,608)

CAPITAL STOCK TRANSACTIONS--		

Proceeds from sale of shares	6,385,862	11,839,537

Net asset value of shares issued to shareholders in payment of dividends declared	1,544,956	531,548

Cost of shares redeemed	(19,997,291)	(13,278,176)

Change in net assets from capital stock transactions	(12,066,473)	(907,091)

Change in net assets	(15,815,379)	2,058,060

NET ASSETS:		

Beginning of period	26,758,883	24,700,823

End of period (including undistributed net investment income of \$4,230 and \$11,118 respectively)	\$ 10,943,504	\$ 26,758,883

</TABLE>

(See Notes which are an integral part of the Financial Statements)

CAPITAL GROWTH FUND
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 1994

(1) ORGANIZATION

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

Investment Company Act of 1940, as amended (the "Act"), as an open-end, management investment company. The Corporation consists of two, diversified portfolios. The financial statements included herein are only those of Capital Growth Fund (the "Fund"). The financial statements of the other portfolio 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.

Effective December 9, 1994, the Fund will provide two classes of shares, "Class A Shares" and "Class C Shares." During the fiscal year ended October 31, 1994, the Fund provided three classes of shares "Investment Shares," "Class A Shares," and "Class C Shares." As of December 9, 1994, the "Investment Shares" class of shares had no shareholders and were no longer offered.

(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. These policies are in conformity with generally accepted accounting principles.

- A. INVESTMENT VALUATIONS--Listed equity securities, corporate bonds and other fixed income securities are valued at the last sale price reported on national securities exchanges. Unlisted securities and bonds are generally valued at the price provided by an independent pricing service. Short-term securities with remaining maturities of sixty days or less may be stated at amortized cost, which approximates value.
- B. REPURCHASE AND REVERSE 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 that the value of collateral 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 Board of Directors of the Corporation (the

CAPITAL GROWTH FUND

"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.

- C. INVESTMENT INCOME, EXPENSES AND DISTRIBUTIONS--Dividend income and distributions to shareholders are recorded on the ex-dividend date. Interest income and expenses are accrued daily. Bond premium and discount, if applicable, are amortized as required by the Internal Revenue Code, as amended (the "Code").
- D. FEDERAL TAXES--It is the Fund's policy to comply with the provisions of the Code applicable to regulated investment companies and to distribute to shareholders each year substantially all of its taxable income. Accordingly, no provisions for federal tax are 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 on the trade date 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--The 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 not to exceed a period of five years from the Fund's commencement date.

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

(3) CAPITAL STOCK

At October 31, 1994, there were 1,000,000,000 shares of (\$.0001 par value per share) of capital stock of the Fund authorized. Transactions in capital stock were as follows:

<TABLE>
<CAPTION>

	YEAR ENDED 10/31/94		YEAR ENDED 10/31/93	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
INVESTMENT SHARES				
Shares sold	225,412	\$ 2,857,811	341,272	\$ 4,316,048
Shares issued to shareholders in payment of dividends declared	71,899	833,031	30,603	380,718
Shares redeemed	(1,404,546)	(16,634,524)	(796,724)	(9,811,729)
Net change resulting from Investment share transactions	(1,107,235)	(\$12,943,682)	(424,849)	(\$5,114,963)

</TABLE>

CAPITAL GROWTH FUND

<TABLE>
<CAPTION>

	YEAR ENDED 10/31/94		YEAR ENDED 10/31/93	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
CLASS A SHARES				
Shares sold	202,913	\$ 2,577,402	575,342	\$ 7,204,386
Shares issued to shareholders in payment of dividends declared	57,557	660,838	12,091	150,830
Shares redeemed	(254,546)	(3,225,286)	(272,085)	(3,450,895)
Net change resulting from Class A share transactions	5,924	\$ 12,954	315,348	\$ 3,904,321

</TABLE>

<TABLE>
<CAPTION>

	YEAR ENDED 10/31/94		YEAR ENDED 10/31/93**	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
CLASS C SHARES				
Shares sold	75,971	\$ 950,649	24,661	\$ 319,103
Shares issued to shareholders in payment of dividends declared	4,583	51,087	--	--

Shares redeemed	(11,270)	(137,481)	(1,187)	(15,552)
Net change resulting from Class C share transactions	69,284	\$ 864,255	23,474	\$ 303,551
Net change resulting from Fund share transactions	(1,032,027)	(\$12,066,473)	(86,027)	(\$907,091)

</TABLE>

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

(4) INVESTMENT ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

INVESTMENT ADVISORY FEE--Federated Advisers, the Fund's investment adviser (the "Adviser"), receives for its services an annual investment advisory fee equal to: (a) .55% of the average daily net assets of the Fund, and (b) 4.5% of the gross income of the Fund, excluding capital gains or losses. The Adviser may voluntarily choose to waive a portion of its fee and to reimburse certain operating expenses of the Fund. The Adviser can modify or terminate this voluntary waiver and reimbursement at any time at its sole discretion.

ADMINISTRATIVE FEE--Federated Administrative Services ("FAS") provides the Fund with administrative personnel and services. Prior to March 1, 1994, these services were provided at approximate cost. Effective March 1, 1994, the FAS fee is based on the level of average aggregate daily net assets of all

CAPITAL GROWTH FUND

funds advised by subsidiaries of Federated Investors for the period. The administrative fee received during the period of the Administrative Services Agreement shall be at least \$125,000 per portfolio and \$30,000 per each additional class of shares.

DISTRIBUTION AND SHAREHOLDER SERVICES FEE--The Fund has adopted a Distribution Plan (the "Plan") pursuant to Rule 12b-1 under the Act. Under the terms of the Plan, the Fund will compensate Federated Securities Corp. ("FSC"), the Fund's principal distributor, from the net assets of the Fund to finance activities intended to result in the sale of the Fund's Class A Shares and Class C Shares. The Plan provides that the Fund may incur distribution expenses up to .25 of 1% and .75 of 1% of the average daily net assets of the Class A Shares and Class C Shares, respectively, annually, to compensate FSC.

Under the terms of a Shareholder Services Agreement with FSC, the Fund will pay up to .25 of 1% of average net assets of the Class C Shares for the period. This fee is incurred to obtain certain personal services for shareholders and to maintain the shareholder accounts.

TRANSFER AND DIVIDEND DISBURSING AGENT FEES--Federated Services Company ("FServ") serves as transfer and dividend disbursing agent for the Fund. The FServ fee is based on the size, type and number of accounts and transactions made by shareholders.

ORGANIZATIONAL EXPENSES--Organizational expenses of \$13,190 and start-up administrative service expenses of \$92,451 were borne initially by the Adviser. The Fund has agreed to reimburse the Adviser for the organizational expenses and start-up administrative expenses during the five year period following January 16, 1992 (date the Fund first became effective). For the year ended October 31, 1994, the Fund paid \$1,128 and \$2,256, respectively pursuant to this agreement.

Certain of the Officers and Directors of the Fund are Officers and Directors or Trustees of the above companies.

(5) INVESTMENT TRANSACTIONS

Purchases, and sales of investments, excluding short-term securities, for the fiscal year ended October 31, 1994, were as follows:

<TABLE>	
<S>	<C>

PURCHASES	\$16,672,716

SALES	\$29,642,510

</TABLE>	

REPORT OF ERNST & YOUNG LLP,

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 Capital Growth Fund (one of the portfolios comprising Investment Series Funds, Inc.) as of October 31, 1994, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended and the financial highlights (see pages 2, 24, and 25 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, 1994, 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 Capital Growth Fund at October 31, 1994, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for the periods presented, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Pittsburgh, Pennsylvania

December 9, 1994

APPENDIX (UNAUDITED)

STANDARD AND POOR'S RATINGS GROUP ("S&P") CORPORATE BOND RATINGS

AAA--Debt rated "AAA" has the highest rating assigned by S&P. 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.

Plus (+) or minus (-): The ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

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 edged." 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. 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, but the margin of safety is not as great as the F-1+ and F-1 categories.

ADDRESSES

```
<TABLE>
<S>          <C>          <C>
Investment Series Funds, Inc.
      Capital Growth Fund          Federated Investors Tower
      Class A Shares                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              P.O. Box 8604
                        Trust Company                       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, L.L.P.  2101 L Street, N.W.
                                             Washington, D.C.
-----
Independent Auditors
      Ernst & Young LLP                One Oxford Centre
                                             Pittsburgh, Pennsylvania 15219
-----
</TABLE>
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CAPITAL GROWTH FUND
CLASS A SHARES
PROSPECTUS

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

December 31, 1994

FEDERATED SECURITIES CORP.
(LOGO)

Distributor

A subsidiary of FEDERATED INVESTORS

FEDERATED INVESTORS TOWER

PITTSBURGH, PA 15222-3779

461444200

1102503A-A (12/94)

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).

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 and Class A Shares, dated December 31, 1994, 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, 1994

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 SUMMARY OF FUND EXPENSES	 -----		
 <TABLE>			
<S>		<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 Charge (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 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 "Contingent Deferred Sales Charge".

(2) The management fee has been reduced to reflect the voluntary waiver of the management fee. The advisor 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 and losses.

(3) The Total Class C Shares Operating Expenses in the table above are based on expenses expected during the fiscal year ending October 31, 1995. The Total Class C Shares Operating Expenses were 2.00% for the fiscal year ended October 31, 1994, and would have been 4.73% absent the voluntary waiver of the management fee, and 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 load permitted under the rules of the National Association of Securities Dealers, Inc.

<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	\$63	\$ 108	\$233
You would pay the following expenses on the same investment, assuming no redemption.....	\$ 20	\$63	\$ 108	\$233

</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 C Shares of the Fund. The Fund also offers Class A Shares. Class A Shares and Class C Shares are subject to certain of the same expenses, however, Class A Shares are subject to a maximum sales load of 5.50%, a 12b-1 fee of 0.25%, and may be subject to a contingent deferred sales charge. See, "Other Classes of Shares."

CAPITAL GROWTH FUND

FINANCIAL HIGHLIGHTS--CLASS C SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

Reference is made to the Report of Ernst & Young LLP, Independent Auditors' report on page 34.

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,	
	1994	1993*
<S>	<C>	<C>
NET ASSET VALUE, BEGINNING OF PERIOD	\$13.36	\$12.39

INCOME FROM INVESTMENT OPERATIONS		

Net investment income	0.04	(0.01)

Net realized and unrealized gain (loss) on investments	(1.23)	0.98

Total from investment operations	(1.19)	0.97

LESS DISTRIBUTIONS		

Dividends to shareholders from net investment income	(0.04)	--

Distributions to shareholders from net realized gain on investment transactions	(0.82)	--

Total distributions	(0.86)	--

NET ASSET VALUE, END OF PERIOD	\$11.31	\$13.36

TOTAL RETURN**	(8.90%)	7.83%

RATIOS TO AVERAGE NET ASSETS		

Expenses	2.00%	2.00%

Net investment income	0.35%	(0.18%) (a)

Expense waiver/reimbursement (b)	2.73%	2.37% (a)

SUPPLEMENTAL DATA		

Net assets, end of period (000 omitted)	\$1,049	\$314

Portfolio turnover rate	86%	74%

</TABLE>

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

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

(a) Computed on an annualized basis.

(b) This voluntary expense decrease is reflected in both the expense and net investment income ratios shown above.

Further information about the Fund's performance is contained in the Fund's annual report for the fiscal year ended October 31, 1994, 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 of the Corporation (the "Directors") has established two classes of shares, known as Class C Shares and Class A Shares. This prospectus relates only to the Class C Shares (the "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 "Federated Liberty."

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 communications utilities;
- Limited Term Fund, providing a high level of current income consistent with minimum fluctuation in principal through investment grade securities;
- Limited Term Municipal Fund, providing a high level of current income exempt from federal regular income tax consistent with the preservation of principal, primarily limited to municipal securities;
- Michigan Intermediate Municipal Trust, providing current income exempt from federal regular income tax and personal income taxes imposed by the

state of Michigan and Michigan municipalities, primarily through Michigan municipal securities;

- Pennsylvania Municipal Income Fund, providing current income exempt from federal regular income tax and the personal income taxes imposed by the Commonwealth of Pennsylvania, primarily through Pennsylvania municipal securities;

- Strategic Income Fund, providing a high level of current income, primarily through domestic and foreign corporate debt obligations;

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

- World Utility Fund, providing total return primarily through securities issued by domestic and foreign companies in the utilities industries.

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.; Capital Preservation Fund; 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; Stock and Bond Fund, Inc.; and Strategic Income Fund. 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, Federated Advisers (the "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 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 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 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 Ratings Group ("S&P") or Fitch Investors Service, Inc., or Baa or higher by Moody's Investors' Service, Inc. ("Moody's")) are high-yield, high-risk bonds (i.e., "junk 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 Prospectus.

The prices of fixed income securities generally fluctuate inversely to the direction of interest rates.

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 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 Adviser, 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 securities on a when-issued or delayed delivery basis. These transactions are arrangements in which the Fund purchases securities with payment and delivery scheduled for a future time. The seller's failure to complete the transaction may cause the Fund to miss a price or yield considered to be advantageous. 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. Accordingly, the Fund may pay more/less than the market value of the securities on the settlement date.

The Fund may dispose of a commitment prior to settlement if the Adviser deems it appropriate to do so. In addition, the Fund may enter in transactions to sell its purchase commitments to third parties at current market values and simultaneously acquire other commitments to purchase similar securities at later dates. The Fund may realize short-term profits or losses upon the sale of such commitments.

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 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 Adviser 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 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 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.

There is the risk that when lending portfolio securities, the securities may not be available to the Fund on a timely basis and the Fund may, therefore, lose the opportunity to sell the securities at a desirable price. In addition, in the event that a borrower of securities would file for bankruptcy or become insolvent, disposition of the securities may be delayed pending court action.

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 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; nor
- 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; nor
- invest more than 5% of its total assets in warrants.

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, 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.

Peter R. Anderson has been the Fund's senior portfolio manager since August, 1994. Mr. Anderson joined Federated Investors in 1972 and is presently, a Senior Vice President of the Fund's investment adviser. Mr. Anderson is a Chartered Financial Analyst and received his M.B.A. in Finance from the University of Wisconsin.

Gregory M. Melvin is the Fund's portfolio manager and has participated in the management of the Fund since January, 1987. 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.

James E. Grefenstette has been the Fund's co-portfolio manager since December, 1994. Mr. Grefenstette joined Federated Investors in 1992 and has been an Assistant Vice President of the Fund's investment adviser since 1994. Mr. Grefenstette served as an investment analyst of the adviser from 1992 to 1994. Mr. Grefenstette served as a credit analyst with Westinghouse Credit Corporation from 1990 to 1992, and as a bond trader and then an Investment Officer with Pittsburgh National Bank from 1987 to 1990. Mr. Grefenstette received his M.S.I.A. from Carnegie Mellon University.

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 AND SHAREHOLDER SERVICES PLANS. Under a distribution plan adopted in accordance with Investment Company Act Rule 12b-1 (the "Distribution Plan"), the Fund may pay to the distributor an amount, computed at an annual rate of 0.75 of 1% of the average daily net asset value of Shares to finance any activity which is principally intended to result in the sale of Shares subject to the Distribution Plan. The distributor may select financial institutions such as banks, fiduciaries, custodians for public funds, investment advisers, and broker/dealers to provide sales support services as agents for their clients or customers.

The Distribution 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, 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 amount or may earn a profit from future payments made by the Fund under the Distribution Plan.

In addition, the Fund has adopted a Shareholder Services Plan (the "Services Plan") under which it may make payments up to 0.25 of 1% of the average daily net asset value of Shares to obtain certain personal services for shareholders and the maintenance of shareholder accounts ("shareholder services"). The Fund has entered into a Shareholder Services Agreement with Federated Shareholder Services, a subsidiary of Federated Investors, under which Federated Shareholder Services will either perform shareholder services directly or will select financial institutions to perform shareholder services. Financial institutions will receive fees 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 Fund and Federated Shareholder Services.

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 load 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 contingent deferred sales charge.

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 administrative 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 law.

ADMINISTRATION OF THE FUND

ADMINISTRATIVE SERVICES. Federated Administrative Services, a subsidiary of Federated Investors, provides administrative personnel and services (including certain legal and financial reporting services) necessary to operate the Corporation and the Fund. Federated Administrative Services provides these at an annual rate which relates to the average aggregate daily net assets of all funds advised by subsidiaries of Federated Investors (the "Federated Funds") as

specified below:

<TABLE>

<CAPTION>

MAXIMUM ADMINISTRATIVE FEE	AVERAGE AGGREGATE DAILY NET ASSETS OF THE FEDERATED FUNDS
<S>	<C>
0.150 of 1%	on the first \$250 million
0.125 of 1%	on the next \$250 million
0.100 of 1%	on the next \$250 million
0.075 of 1%	on assets in excess of \$750 million

</TABLE>

The administrative fee received during any fiscal year shall be at least \$125,000 per portfolio and \$30,000 per each additional class of shares. Federated Administrative Services may choose voluntarily to waive a portion of its fee.

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 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, L.L.P., 2101 L Street, N.W., Washington, D.C. 20037.

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

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 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
- mail both to Federated Services Company, P.O. Box 8604, Boston, Massachusetts 02266-8604.

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

BY WIRE. To purchase Shares 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: Federated Services Company, c/o 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 load, 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, contact Federated Securities Corp. 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 contingent deferred sales charge. 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 contingent 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 equal to the minimum investment requirements of the fund into which the exchange is being made. 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.

Shares in certain Federated Funds which are advised by subsidiaries or affiliates of Federated Investors may also be exchanged for Shares. Such exchanges may be subject to a contingent deferred sales charge and possibly a sales load.

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 Federated Services Company, c/o State Street Bank and Trust Company, Two Heritage Drive, North Quincy, Massachusetts 02171.

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 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
- any other "eligible guarantor institution," 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.

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."

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 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 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 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 and Class A Shares. Because Class A Shares may be subject to a lower 12b-1 fee than Class C Shares, total return and yield for Class A Shares will likely 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 offered by the Fund are sold to customers of financial institutions subject to a front-end sales load of 5.50% 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.

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

The amount of dividends payable to holders of Class A Shares will generally exceed that of Class C Shares by the difference between Class Expenses and

distribution expenses borne by shares of each respective class.

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

CAPITAL GROWTH FUND

FINANCIAL HIGHLIGHTS--INVESTMENT SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

Reference is made to the Report of Ernst & Young LLP, Independent Auditors' report on page 34.

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,			YEAR ENDED DECEMBER 31,		
	1994****	1993	1992**	1991	1990	1989*
<S>	<C>	<C>	<C>	<C>	<C>	<C>
NET ASSET VALUE, BEGINNING OF PERIOD	\$13.38	\$11.84	\$12.00	\$ 9.11	\$ 9.97	\$10.00
INCOME FROM INVESTMENT OPERATIONS						
Net investment income	0.15	0.13	0.12	0.31	0.32	0.03
Net realized and unrealized gain (loss) on investments	(1.25)	1.71	(0.18)	2.91	(0.86)	(0.04)
Total from investment operations	(1.10)	1.84	(0.06)	3.22	(0.54)	(0.01)
LESS DISTRIBUTIONS						
Dividends to shareholders from net investment income	(0.15)	(0.14)	(0.10)	(0.30)	(0.32)	(0.02)
Distributions to shareholders from net realized gain on investment transactions	(0.82)	(0.16)	--	(0.02)	--	--
Distributions in excess of net investment income (a)	--	--	--	(0.01)	--	--
Total distributions	(0.97)	(0.30)	(0.10)	(0.33)	(0.32)	(0.02)
NET ASSET VALUE, END OF PERIOD	\$11.31	\$13.38	\$11.84	\$12.00	\$ 9.11	\$ 9.97
TOTAL RETURN***	(8.20%)	15.70%	(0.53 %)	35.68%	(5.43%)	(0.02%)
RATIOS TO AVERAGE NET ASSETS						
Expenses	1.03%	1.00%	1.00 % (b)	1.00%	1.00%	1.19% (b)
Net investment income	1.17%	0.98%	1.28 % (b)	2.73%	3.54%	4.21% (b)
Expense waiver/reimbursement (c)	2.73%	2.37%	1.50 % (b)	1.50%	1.50%	0.78% (b)
SUPPLEMENTAL DATA						
Net assets, end of period (000 omitted)	\$14	\$14,836	\$18,161	\$13,513	\$7,484	\$5,525
Portfolio turnover rate	86%	74%	29 %	57%	83%	0%

</TABLE>

* 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.

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

**** As of December 9, 1994, Investment shares of Capital Growth Fund had no shareholders and were no longer offered for public investments.

(a) These distributions do not represent a return of capital for federal tax purposes.

(b) Computed on an annualized basis.

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

(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 the Report of Ernst & Young LLP, Independent Auditors' report on page 34.

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,		
	1994	1993	1992*
NET ASSET VALUE, BEGINNING OF PERIOD	\$13.38	\$11.84	\$12.00
INCOME FROM INVESTMENT OPERATIONS			
Net investment income	0.12	0.09	0.11
Net realized and unrealized gain (loss) on investments	(1.25)	1.71	(0.18)
Total from investment operations	(1.13)	1.80	(0.07)
LESS DISTRIBUTIONS			
Dividends to shareholders from net investment income	(0.12)	(0.10)	(0.09)
Distributions to shareholders from net realized gain on investment transactions	(0.82)	(0.16)	--
Total distributions	(0.94)	(0.26)	(0.09)
NET ASSET VALUE, END OF PERIOD	\$11.31	\$13.38	\$11.84
TOTAL RETURN**	(8.43%)	15.34%	(0.61%)
RATIOS TO AVERAGE NET ASSETS			
Expenses	1.25%	1.25%	1.17% (a)
Net investment income	1.00%	0.73%	1.19% (a)
Expense waiver/reimbursement (b)	2.79%	2.37%	1.33% (a)
SUPPLEMENTAL DATA			
Net assets, end of period (000 omitted)	\$9,880	\$11,609	\$6,540

</TABLE>

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

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

(a) Computed on an annualized basis.

(b) This voluntary expense decrease is reflected in both the expense and net investment income ratios shown above.

(See Notes which are an integral part of the Financial Statements)

CAPITAL GROWTH FUND
PORTFOLIO OF INVESTMENTS
OCTOBER 31, 1994

<TABLE>

<CAPTION>

SHARES		VALUE
<C>	<C> <S>	<C>
COMMON STOCKS--67.2%		
BASIC INDUSTRY--1.2%		
7,500	(a) Magma Copper Co.	\$ 134,063
CAPITAL GOODS--15.0%		
6,700	Dover Corp.	371,850
20,300	(a) Foamex International, Inc.	182,700
5,800	General Motors Corp., Class H	208,800
8,700	Greenfield Industries, Inc.	206,625
17,400	(a) Kenetech Corp.	221,850
5,800	Loral Corp.	229,825
5,800	Stewart & Stevenson Services, Inc.	223,300
Total		1,644,950

</TABLE>

<TABLE>

<C>	<C> <S>	<C>
CONSUMER DURABLES--2.6%		
5,900	Chrysler Corp.	287,625
CONSUMER PRODUCTS--8.6%		
29,000	(a) Dr. Pepper/Seven-Up Cos., Inc.	735,875
7,000	(a) Safeway, Inc.	206,500
Total		942,375
ENERGY--6.1%		

6,400	Ashland Oil Co.	248,800
10,025	Cinergy Corp.	231,837
5,800	Sonata, Inc.	188,500
	Total	669,137
	FINANCE--9.4%	
17,400	MBNA Corp.	465,450
5,941	Mellon Bank Corp.	330,468
4,600	NationsBank Corp.	227,700
	Total	1,023,618

</TABLE>

CAPITAL GROWTH FUND

<TABLE>		<CAPTION>		SHARES		VALUE	
<C>	<C>	<S>		<C>		<C>	
COMMON STOCKS--CONTINUED							
HEALTHCARE--6.3%							
6,000	(a)		Foundation Health Corp.	\$		196,500	
6,700			Genentech, Inc.			340,025	
3,700	(a)		Genetics Institute, Inc.			149,850	
			Total			686,375	
INSURANCE--3.2%							
10,000			Travelers, Inc.			347,500	
PROCESS INDUSTRIES--1.9%							
9,200			Praxair, Inc.			212,750	
TECHNOLOGY--6.7%							
5,800	(a)		Compaq Computer Corp.			232,725	
10,100	(a)		Integrated Device Technology			286,587	
3,500			Intel Corp.			217,437	
			Total			736,749	
TRANSPORTATION--1.9%							
8,700			American President Cos., Ltd.			210,975	
UTILITIES--2.7%							
9,200			Sprint Corp.			300,150	
WASTE DISPOSAL--1.5%							
81,200	(a)		Chambers Development, Inc.			162,400	
			TOTAL COMMON STOCKS (IDENTIFIED COST \$6,529,180)			7,358,667	

CONVERTIBLE PREFERRED STOCK--2.1%

UTILITIES--2.1%

4,000	(a) Nacional Financiera, SNC, PRIDES, \$6.79	232,000
TOTAL CONVERTIBLE PREFERRED STOCKS (IDENTIFIED COST \$241,450)		232,000

</TABLE>

CAPITAL GROWTH FUND

<TABLE>		
<CAPTION>		
PRINCIPAL		VALUE
AMOUNT		
OR SHARES		

<C>	<C>	<S>	<C>
CONVERTIBLE SECURITIES--21.0%			
BASIC INDUSTRY--2.5%			
290,000	Medusa Corp., Conv. Sub. Note, 6.00%, 11/15/2003		\$ 269,700
CAPITAL GOODS--1.9%			
140,000	General Instrument Corp., Conv. Jr. Sub. Note, 5.00%, 6/15/2000		207,277
CONSUMER PRODUCTS--5.7%			
580,000	Laidlaw, Inc., Conv. Deb., (ADT) 6.00%, 1/15/99		624,225
FINANCE--6.3%			
10,300	First USA, Inc., PRIDES, \$1.99		355,350
8,700	Sunamerica, Inc., Conv. Pfd., Series D, \$2.78		336,038
	Total		691,388
HEALTHCARE--4.6%			
960,000	Roche Holdings, Inc., LYON, 4.75% accrual 9/23/2008		501,600
	TOTAL CONVERTIBLE SECURITIES (IDENTIFIED COST \$2,277,724)		2,294,190

</TABLE>

<TABLE>			
<C>	<C>	<S>	<C>
CONVERTIBLE BONDS--3.6%			
CONSUMER PRODUCTS--3.6%			
\$1,360,000	Coleman Worldwide Corp., Conv. LYON, 7.25%, accrual, 5/27/2013		389,300
	TOTAL CONVERTIBLE BONDS (IDENTIFIED COST \$379,921)		389,300

</TABLE>

CAPITAL GROWTH FUND

<TABLE>			
<CAPTION>			
PRINCIPAL		VALUE	
AMOUNT			
<C>	<C>	<S>	<C>
*REPURCHASE AGREEMENT--6.6%			
\$ 725,000	Morgan (J.P.) Securities, Inc., 4.82%, dated 10/31/94, due		

11/1/94	
(at amortized cost)	\$ 725,000

TOTAL INVESTMENTS (IDENTIFIED COST \$10,153,275)	\$10,999,157+

</TABLE>

* The repurchase agreement is fully collateralized by U.S. government 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 \$10,246,120. The net appreciation on a federal tax basis amounts to \$753,037, which is comprised of \$1,496,035 appreciation and \$742,998 depreciation at October 31, 1994.

(a) Non-income producing.

Note: The categories of investments are shown as a percentage of net assets (\$10,943,504) at October 31, 1994.

The following abbreviations are used in this portfolio:

<TABLE>		
<S>	<C>	<C>
LYON	--	Liquid Yield Option Note
PRIDES	--	Preferred Redeemable Increased Dividend Equity Securities
</TABLE>		

(See Notes which are an integral part of the Financial Statements)

CAPITAL GROWTH FUND
STATEMENT OF ASSETS AND LIABILITIES
OCTOBER 31, 1994

<TABLE>		
<S>	<C>	<C>
ASSETS:		

Investments in securities, at value (identified cost, \$10,153,275, and tax cost, \$10,246,120)		\$10,999,157

Cash		1,413

Dividend and interest receivable		31,798

Receivable for capital stock sold		6,964

Total assets		11,039,332

LIABILITIES:		

Payable for capital stock redeemed	\$45,021	

Accrued expenses	50,807	

Total liabilities		95,828

NET ASSETS for 967,596 shares of capital stock outstanding		\$10,943,504

NET ASSETS CONSIST OF:		

Paid-in capital		\$10,174,897

Net unrealized appreciation (depreciation) of investments		845,882

Accumulated net realized gain (loss) on investments		(81,505)

Undistributed net investment income		4,230

Total Net Assets	\$10,943,504
NET ASSET VALUE AND REDEMPTION PROCEEDS PER SHARE:	
Investment Shares (net assets of \$14,871 / 1,315 shares of capital stock outstanding)	\$11.31
Class A Shares (net assets of \$9,879,565 / 873,523 shares of capital stock outstanding)	\$11.31
Class C Shares (net assets of \$1,049,068 / 92,758 shares of capital stock outstanding)	\$11.31
COMPUTATION OF OFFERING PRICE:	
Investment Shares (100/94.25 of \$11.31)*	\$12.00
Class A Shares (100/94.50 of \$11.31)*	\$11.97

</TABLE>

* See "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, 1994

	<C>	<C>	<C>
<TABLE>			
<S>			
INVESTMENT INCOME:			
Dividends			\$ 202,322
Interest			276,602
Total investment income			478,924
EXPENSES:			
Investment advisory fee	\$139,962		
Directors' fees	4,841		
Administrative personnel and services	213,197		
Custodian and portfolio accounting fees	88,866		
Transfer agent and dividend disbursing agent fees and expenses	190,895		
Shareholder services fee--Class A Shares	7,090		
Shareholder services fee--Class C Shares	1,683		
Fund share registration costs	40,658		
Auditing fees	13,498		
Legal fees	12,698		
Distribution services fee--Class A Shares	27,353		
Distribution services fee--Class C Shares	5,049		
Printing and postage	72,942		
Insurance premiums	7,017		
Taxes	4,323		
Miscellaneous	14,980		
Total expenses	845,052		

Deduct--		
Waiver of investment advisory fee	\$139,962	
Waiver of distribution services fee--Class A Shares	7,123	
Reimbursement of other operating expenses	446,250	593,335
Net expenses		251,717
Net investment income		227,207
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized gain (loss) on investment transactions (identified cost basis)		1,057,990
Net change in unrealized appreciation (depreciation) of investments		(3,347,016)
Net realized and unrealized gain on investments		(2,289,026)
Change in net assets resulting from operations		\$ (2,061,819)

</TABLE>

(See Notes which are an integral part of the Financial Statements)

CAPITAL GROWTH FUND
STATEMENT OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,	
	1994	1993
	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:		
OPERATIONS--		
Net investment income	\$ 227,207	\$ 226,782
Net realized gain (loss) on investment transactions (\$1,150,835 and \$303,564 net gain, respectively, as computed for federal tax purposes)	1,057,990	303,564
Change in unrealized appreciation (depreciation) of investments	(3,347,016)	3,026,413
Change in net assets resulting from operations	(2,061,819)	3,556,759
DISTRIBUTIONS TO SHAREHOLDERS--		
Dividends to shareholders from net investment income:		
Investment Shares	(127,805)	(174,344)
Class A Shares	(103,720)	(76,306)
Class C Shares	(2,570)	--
Distributions to shareholders from net realized gain on investment transactions:		
Investment Shares	(705,563)	(245,773)
Class A Shares	(686,918)	(95,185)
Class C Shares	(60,511)	--
Change in net assets from distributions to shareholders	(1,687,087)	(591,608)

CAPITAL STOCK TRANSACTIONS--

Proceeds from sale of shares	6,385,862	11,839,537

Net asset value of shares issued to shareholders in payment of dividends declared	1,544,956	531,548

Cost of shares redeemed	(19,997,291)	(13,278,176)

Change in net assets from capital stock transactions	(12,066,473)	(907,091)

Change in net assets	(15,815,379)	2,058,060

NET ASSETS:		

Beginning of period	26,758,883	24,700,823

End of period (including undistributed net investment income of \$4,230 and \$11,118 respectively)	\$ 10,943,504	\$ 26,758,883

</TABLE>

(See Notes which are an integral part of the Financial Statements)

CAPITAL GROWTH FUND
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 1994

(1) ORGANIZATION

Investment Series Funds, Inc. (the "Corporation") is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end, management investment company. The Corporation consists of two, diversified portfolios. The financial statements included herein are only those of Capital Growth Fund (the "Fund"). The financial statements of the other portfolio 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.

Effective December 9, 1994, the Fund will provide two classes of shares, "Class A Shares" and "Class C Shares." During the fiscal year ended October 31, 1994, the Fund provided three classes of shares "Investment Shares," "Class A Shares," and "Class C Shares." As of December 9, 1994, the "Investment Shares" class of shares had no shareholders and were no longer offered.

(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. These policies are in conformity with generally accepted accounting principles.

- A. INVESTMENT VALUATIONS--Listed equity securities, corporate bonds and other fixed income securities are valued at the last sale price reported on national securities exchanges. Unlisted securities and bonds are generally valued at the price provided by an independent pricing service. Short-term securities with remaining maturities of sixty days or less may be stated at amortized cost, which approximates value.
- B. REPURCHASE AND REVERSE 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 that the value of collateral 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 Board of Directors of the Corporation (the

CAPITAL GROWTH FUND

"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.

- C. INVESTMENT INCOME, EXPENSES AND DISTRIBUTIONS--Dividend income and distributions to shareholders are recorded on the ex-dividend date. Interest income and expenses are accrued daily. Bond premium and discount, if applicable, are amortized as required by the Internal Revenue Code, as amended (the "Code").
- D. FEDERAL TAXES--It is the Fund's policy to comply with the provisions of the Code applicable to regulated investment companies and to distribute to shareholders each year substantially all of its taxable income. Accordingly, no provisions for federal tax are 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 on the trade date 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--The 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 not to exceed a period of five years from the Fund's commencement date.
- G. OTHER--Investment transactions are accounted for on the trade date.

(3) CAPITAL STOCK

At October 31, 1994, there were 1,000,000,000 shares of (\$.0001 par value per share) of capital stock of the Fund authorized. Transactions in capital stock were as follows:

<TABLE>
<CAPTION>

	YEAR ENDED 10/31/94		YEAR ENDED 10/31/93	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
INVESTMENT SHARES				
Shares sold	225,412	\$ 2,857,811	341,272	\$ 4,316,048
Shares issued to shareholders in payment of dividends declared	71,899	833,031	30,603	380,718
Shares redeemed	(1,404,546)	(16,634,524)	(796,724)	(9,811,729)
Net change resulting from Investment share transactions	(1,107,235)	(\$12,943,682)	(424,849)	(\$5,114,963)

</TABLE>

CAPITAL GROWTH FUND

<TABLE>
<CAPTION>

	YEAR ENDED 10/31/94		YEAR ENDED 10/31/93	
	SHARES	AMOUNT	SHARES	AMOUNT

<S>	<C>	<C>	<C>	<C>
CLASS A SHARES				
Shares sold	202,913	\$ 2,577,402	575,342	\$ 7,204,386
Shares issued to shareholders in payment of dividends declared	57,557	660,838	12,091	150,830
Shares redeemed	(254,546)	(3,225,286)	(272,085)	(3,450,895)
Net change resulting from Class A share transactions	5,924	\$ 12,954	315,348	\$ 3,904,321

<TABLE>
<CAPTION>

<S>	YEAR ENDED 10/31/94		YEAR ENDED 10/31/93**	
	SHARES	AMOUNT	SHARES	AMOUNT
CLASS C SHARES				
Shares sold	75,971	\$ 950,649	24,661	\$ 319,103
Shares issued to shareholders in payment of dividends declared	4,583	51,087	--	--
Shares redeemed	(11,270)	(137,481)	(1,187)	(15,552)
Net change resulting from Class C share transactions	69,284	\$ 864,255	23,474	\$ 303,551
Net change resulting from Fund share transactions	(1,032,027)	(\$12,066,473)	(86,027)	(\$907,091)

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

(4) INVESTMENT ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

INVESTMENT ADVISORY FEE--Federated Advisers, the Fund's investment adviser (the "Adviser"), receives for its services an annual investment advisory fee equal to: (a) .55% of the average daily net assets of the Fund, and (b) 4.5% of the gross income of the Fund, excluding capital gains or losses. The Adviser may voluntarily choose to waive a portion of its fee and to reimburse certain operating expenses of the Fund. The Adviser can modify or terminate this voluntary waiver and reimbursement at any time at its sole discretion.

ADMINISTRATIVE FEE--Federated Administrative Services ("FAS") provides the Fund with administrative personnel and services. Prior to March 1, 1994, these services were provided at approximate cost. Effective March 1, 1994, the FAS fee is based on the level of average aggregate daily net assets of all

CAPITAL GROWTH FUND

funds advised by subsidiaries of Federated Investors for the period. The administrative fee received during the period of the Administrative Services Agreement shall be at least \$125,000 per portfolio and \$30,000 per each additional class of shares.

DISTRIBUTION AND SHAREHOLDER SERVICES FEE--The Fund has adopted a Distribution Plan (the "Plan") pursuant to Rule 12b-1 under the Act. Under the terms of the Plan, the Fund will compensate Federated Securities Corp. ("FSC"), the Fund's principal distributor, from the net assets of the Fund to finance activities intended to result in the sale of the Fund's Class A Shares and Class C Shares. The Plan provides that the Fund may incur distribution expenses up to .25 of 1%

and .75 of 1% of the average daily net assets of the Class A Shares and Class C Shares, respectively, annually, to compensate FSC.

Under the terms of a Shareholder Services Agreement with FSC, the Fund will pay up to .25 of 1% of average net assets of the Class C Shares for the period. This fee is incurred to obtain certain personal services for shareholders and to maintain the shareholder accounts.

TRANSFER AND DIVIDEND DISBURSING AGENT FEES--Federated Services Company ("FServ") serves as transfer and dividend disbursing agent for the Fund. The FServ fee is based on the size, type and number of accounts and transactions made by shareholders.

ORGANIZATIONAL EXPENSES--Organizational expenses of \$13,190 and start-up administrative service expenses of \$92,451 were borne initially by the Adviser. The Fund has agreed to reimburse the Adviser for the organizational expenses and start-up administrative expenses during the five year period following January 16, 1992 (date the Fund first became effective). For the year ended October 31, 1994, the Fund paid \$1,128 and \$2,256, respectively pursuant to this agreement.

Certain of the Officers and Directors of the Fund are Officers and Directors or Trustees of the above companies.

(5) INVESTMENT TRANSACTIONS

Purchases, and sales of investments, excluding short-term securities, for the fiscal year ended October 31, 1994, were as follows:

<TABLE>	
<S>	<C>
-----	-----
PURCHASES	\$16,672,716
-----	-----
SALES	\$29,642,510
-----	-----

</TABLE>

REPORT OF ERNST & YOUNG LLP,

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 Capital Growth Fund (one of the portfolios comprising Investment Series Funds, Inc.) as of October 31, 1994, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended and the financial highlights (see pages 2, 21, and 22 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, 1994, 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 Capital Growth Fund at October 31, 1994, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for the periods presented, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Pittsburgh, Pennsylvania

December 9, 1994

APPENDIX (UNAUDITED)

STANDARD AND POOR'S RATINGS GROUP ("S&P") CORPORATE BOND RATINGS

AAA--DEBT rated "AAA" has the highest rating assigned by S & P. 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.

Plus (+) or minus (-): The ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

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 edged." 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

PROSPECTUS

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

December 31, 1994

FEDERATED SECURITIES CORP.
(LOGO)

Distributor

A subsidiary of FEDERATED INVESTORS

FEDERATED INVESTORS TOWER

PITTSBURGH, PA 15222-3779

461444408

1102503A-C (12/94)

CAPITAL GROWTH FUND
(CLASS A SHARES, CLASS C SHARES AND INVESTMENT SHARES)

ANNUAL REPORT FOR FISCAL YEAR ENDED OCTOBER 31, 1994

MANAGEMENT DISCUSSION AND ANALYSIS

At the end of the first quarter of this year, adjustments were made to the management style of Capital Growth Fund (the "Fund" or "CGF"). These adjustments were intended to address the historically volatile performance of the Fund. Instituting the new disciplines required that substantial changes had to be made to the portfolio. One change was the adjustment in the Fund's exposures in underweighted and overweighted industry sectors, as shown in the following chart:

<TABLE>
<CAPTION>

Graphic representation "A" omitted. See appendix.

SECTOR	CGF RELATIVE WEIGHT 3/31/94	CGF RELATIVE WEIGHT 11/30/94	STANDARD AND POOR'S 500 INDEX RELATIVE WEIGHT*
<S>	<C>	<C>	<C>
Basic Industries	29.7%	76.4%	8.4%
Consumer Durables	134.1%	176.5%	4.7%
Consumer Non Durables	54.5%	72.5%	11.0%
Consumer Services	142.9%	57.9%	11.7%
Energy	103.2%	64.2%	9.6%
Finance	119.1%	123.3%	11.0%
Health Care	137.2%	76.7%	7.8%
Industrial/Manufacturing	230.7%	104.5%	9.0%
Technology	66.0%	131.2%	9.3%
Transportation	405.9%	111.7%	1.8%
Utilities	0.0%	63.3%	13.4%

</TABLE>

At the end of the first quarter, the average relative sector underweighting was 38%, while the average relative sector overweighting (excluding cash) was 182%. As of November, 1994, these relative averages were 69% and 129%, respectively. The Fund has moved from making sizable sector bets to more moderate over and under sector weightings.

Since the end of the first quarter, 18 of the Fund's 37 positions (49%) were eliminated, and almost all of the remaining positions were reduced. As of November 30, 1994, the Fund has replaced exited holdings and has added five more positions to increase the number of securities in the Fund's portfolio to 42. The Fund has gone from averaging 4.8 in the Columbine Growth Decile (the Fund's primary model for ranking stocks; 1-most

attractive, 10-least attractive) and 5.8 in ZEI (Zack's earnings estimate momentum model and one of the Fund's veto screens; 1-good estimate momentum, 10-weak estimate momentum) to 3.7 and 4.8, respectively.

* This index is unmanaged. Relative weightings for the Standard and Poor's 500 Index are for the period from April 1, 1994 to November 30, 1994.

The average and median market capitalizations have moved from \$4.2 and \$1.1 billion to \$5.1 and \$2.0 billion. This has had a couple of positive effects: 1) for marketing purposes, the Fund will no longer be confused with a small stock fund, which have median market capitalizations of around \$1 billion and below; 2) as the Fund moves up the size ladder, the volatility of its holdings should decline--which should help moderate the volatility of returns for the Fund; and 3) the stocks the Fund holds should be more liquid. The Fund has now reached a market capitalization that is between mid- and large-market capitalizations, which should permit the liquidity the Fund needs in stocks that still have plenty of growth left in them.

Making these changes allowed the Fund's average relative price/earnings ratio to decrease from 110% of the Standard and Poor's 500 ("S&P 500") to 92%, while only decreasing the Fund's average expected long-term earnings growth rate, relative to the S&P 500, from 159% to 144%. In other words, the Fund was able to get growth at a better price.

While the Fund still has changes yet to come (i.e., continue to reduce its smaller, more thinly traded holdings and add 13 to 18 new positions), it is materially different from what it was at the end of the first quarter of 1994. The changes already made should have a meaningful impact on the Fund's performance into 1995.

On a broader note, about a year ago, we had anticipated the return of growth style outperformance. As shown in the chart on the following page, there was only a decline in the momentum of value's outperformance over growth. Now it appears as though the times have finally changed--growth, according to the performance of the Russell 1000 Growth Index,* has been outperforming value on a 12-month moving average basis. Whether this is a sign of a trend to come or just the growth style coming up for a breath is difficult to say.

The driving factor here will probably be the economy. While the economy continues to grow, the rate of its growth has begun to moderate. This moderation, some believe, portends the coming of the next economic slow down. We believe that such a slow down should provide a favorable environment for growth stocks, which by most definitions tend to grow their earnings due to secular forces (or influences outside that of the broader economy) as opposed to cyclical ones. As investors begin to anticipate a slow down, they move from value stocks, whose earnings are usually more sensitive to cyclical economic growth, to growth stocks.

* This Index is unmanaged.

The current demographics of the United States could continue to foster a favorable environment for growth stocks. For the next five or more years, the number of people turning 25 years old and setting up a household (an event which provides considerable growth to the economy) will be increasing at a declining rate. This situation, along with the expansion of the older and less consumptive segment of our population, should provide a damper on the nominal growth of the economy for the next several years. We believe growth stocks should do well in this environment.

12 MONTH MOVING AVG OF THE RUSSELL GROWTH INDEX VERSUS THE
RUSSELL VALUE INDEX*

* This Index is unmanaged.

CAPITAL GROWTH FUND (CLASS A SHARES)

GROWTH OF \$10,000 INVESTED IN CAPITAL GROWTH FUND (CLASS A SHARES)

The graph below illustrates the hypothetical investment of \$10,000 in

Capital Growth Fund (Class A Shares) (the "Fund") from January 17, 1992 (start of performance) to October 31, 1994, compared to the Standard and Poor's 500 Index (SP500)+ and the Lipper Growth Fund Index (LGF).+

<TABLE>
<CAPTION>

Graphic representation "B" omitted. See appendix.

Measurement Period (Fiscal Year Covered)	Capital Growth Fund-A <C>	Standard and Poor's 500 Index <C>	Lipper Growth Fund Index <C>
1/17/92	9450	10000	10000
10/31/92	9031	10477	10129
10/31/93	10416	12037	12286
10/31/94	9538	12492	12484

AVERAGE ANNUAL TOTAL RETURN FOR
THE PERIOD ENDED OCTOBER 31, 1994

1 Year.....	(13.48)%
Start of Performance (01/17/92).....	(1.69)%

</TABLE>

PAST PERFORMANCE IS NOT PREDICTIVE OF FUTURE PERFORMANCE. YOUR INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE SO THAT WHEN SHARES ARE REDEEMED THEY MAY BE WORTH MORE OR LESS THAN ORIGINAL COST. MUTUAL FUNDS ARE NOT OBLIGATIONS OF, OR GUARANTEED BY, ANY BANK AND ARE NOT FEDERALLY INSURED.

This report must be preceded or accompanied by the Fund's prospectus dated December 31, 1994, and together with the financial statements contained therein, constitutes the Fund's annual report.

* Represents a hypothetical investment of \$10,000 in the Fund after deducting the maximum sales load of 5.50% (\$10,000 investment minus \$550 sales load = \$9,450). The Fund's performance assumes the reinvestment of all dividends and distributions. The SP500 and LGF have been adjusted to reflect reinvestment of dividends on securities in the index.

+ SP500 and LGF are not adjusted to reflect sales loads, expenses, or other fees that the Securities and Exchange Commission requires to be reflected in the Fund's performance.

CAPITAL GROWTH FUND (CLASS C SHARES)

GROWTH OF \$10,000 INVESTED IN CAPITAL GROWTH FUND (CLASS C SHARES)

The graph below illustrates the hypothetical investment of \$10,000 in the Capital Growth Fund (Class C Shares) (the "Fund") from April 14, 1993 (start of performance) to October 31, 1994, compared to the Standard and Poor's 500 Index (SP500)+ and the Lipper Growth Fund Index (LGF).+

<TABLE>
<CAPTION>

Graphic representation "C" omitted. See appendix.

Measurement Period (Fiscal Year Covered)	Capital Growth Fund-C <C>	Standard and Poors 500 Index <C>	Lipper Growth Fund Index <C>
4/14/93	10000	10000	10000
10/31/93	10783	10506	10949
10/31/94	9823	10903	11125

AVERAGE ANNUAL TOTAL RETURN FOR
THE PERIOD ENDED OCTOBER 31, 1994

1 Year.....	(9.79)%
Start of Performance (04/14/93).....	(1.15)%

</TABLE>

PAST PERFORMANCE IS NOT PREDICTIVE OF FUTURE PERFORMANCE. YOUR INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE SO THAT WHEN SHARES ARE REDEEMED THEY MAY BE WORTH MORE OR LESS THAN ORIGINAL COST. MUTUAL FUNDS ARE NOT OBLIGATIONS OF, OR GUARANTEED BY, ANY BANK AND ARE NOT FEDERALLY INSURED.

This report must be preceded or accompanied by the Fund's prospectus dated December 31, 1994, and, together with the financial statements contained therein, constitutes the Fund's annual report.

* The Fund's performance assumes the reinvestment of all dividends and distributions. SP500 and LGF have been adjusted to reflect reinvestment of dividends on securities in the index.

+ SP500 and LGF are not adjusted to reflect sales loads, expenses, or other fees that the Securities and Exchange Commission requires to be reflected in the Fund's performance.

FEDERATED SECURITIES CORP.

(LOGO)

Distributor
461444200
461444408
461444101
1102503-ARS (12/94)

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, 1994, with the Securities and Exchange Commission. The information contained in the Statement of Additional Information is incorporated by reference into this prospectus. You may request a copy of the 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, 1994

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FORTRESS BOND FUND
SUMMARY OF FUND EXPENSES

<TABLE>		
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	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
Contingent Deferred Sales Charge (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

<CAPTION>

ANNUAL FUND OPERATING EXPENSES

<S>		<C>	<C>
Management Fee (after waiver) (2).....			0.48%
12b-1 Fee.....			None
Total Other Expenses.....			0.56%
Shareholder Services Fee (after waiver) (3).....	0.24%		
Total Fund Operating Expenses (4).....			1.04%

- <FN>
- (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 four years of their purchase date. For a more complete description see "Contingent Deferred Sales Charge."
 - (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 maximum shareholder services fee is 0.25%.
 - (4) The Total Fund Operating Expenses in the table above are based on expenses expected during the fiscal year ending October 31, 1995. The Total Fund Operating Expenses were 1.05% for the fiscal year ended October 31, 1994, and were 1.38% absent the voluntary waiver of a portion of the management fee.

</TABLE>

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 \$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.....	\$31	\$54	\$67	\$136
You would pay the following expenses on the same investment, assuming no redemption.....	\$21	\$43	\$67	\$136

</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 LLP, Independent Auditors' report on page 41.

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,		
	1994	1993	1992**
<S>	<C>	<C>	<C>
NET ASSET VALUE, BEGINNING OF PERIOD	\$ 10.30	\$ 9.23	\$ 8.81
INCOME FROM INVESTMENT OPERATIONS			
Net investment income	0.76	0.77	0.59
Net realized and unrealized gain (loss) on investments	(1.09)	1.07	0.43
Total from investment operations	(0.33)	1.84	1.02
LESS DISTRIBUTIONS			
Dividends to shareholders from net investment income	(0.75)	(0.77)	(0.60)

Distributions to shareholders from net realized gain on investment transactions	(0.14)	--	--
Total distributions	(0.89)	(0.77)	(0.60)
NET ASSET VALUE, END OF PERIOD	\$ 9.08	\$ 10.30	\$ 9.23
TOTAL RETURN***	(3.41%)	20.61%	11.79%
RATIOS TO AVERAGE NET ASSETS			
Expenses	1.05%	1.04%	0.49% (a)
Net investment income	7.92%	7.69%	8.05% (a)
Expense waiver/reimbursement (b)	0.33%	0.61%	2.01% (a)
SUPPLEMENTAL DATA			
Net assets, end of period (000 omitted)	\$146,270	\$125,762	\$54,886
Portfolio turnover rate	74%	51%	49%

<CAPTION>

	YEAR ENDED DECEMBER 31,			
	1991	1990	1989	1988*
<S>	<C>	<C>	<C>	<C>
NET ASSET VALUE, BEGINNING OF PERIOD	\$ 6.89	\$ 8.79	\$ 9.86	\$ 10.06
INCOME FROM INVESTMENT OPERATIONS				
Net investment income	1.01	1.08	1.23	0.61
Net realized and unrealized gain (loss) on investments	1.92	(1.84)	(1.07)	(0.16)
Total from investment operations	2.93	(0.76)	0.16	0.45
LESS DISTRIBUTIONS				
Dividends to shareholders from net investment income	(1.01)	(1.14)	(1.23)	(0.65)
Distributions to shareholders from net realized gain on investment transactions	--	--	--	--
Total distributions	(1.01)	(1.14)	(1.23)	(0.65)
NET ASSET VALUE, END OF PERIOD	\$ 8.81	\$ 6.89	\$ 8.79	\$ 9.86
TOTAL RETURN***	44.62%	(9.59%)	1.32%	4.62%
RATIOS TO AVERAGE NET ASSETS				
Expenses	1.00%	1.01%	1.14%	1.00% (a)
Net investment income	12.17%	13.43%	12.81%	12.58% (a)
Expense waiver/reimbursement (b)	1.50%	1.49%	1.36%	1.00% (a)
SUPPLEMENTAL DATA				
Net assets, end of period (000 omitted)	\$6,068	\$7,484	\$4,734	\$4,968
Portfolio turnover rate	33%	28%	38%	31%

<FN>

* Reflects operations for the period from July 8, 1988 (date of initial public investment) to December 31, 1988.

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

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

(a) Computed on an annualized basis.

(b) This voluntary expense decrease is reflected in both the expense and net investment income ratios shown above.

(See Notes which are an integral part of the Financial Statements)

Further information about the Fund's performance is contained in the Fund's annual report for the fiscal year ended October 31, 1994, which can be obtained free of charge.

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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 IRA accounts, which require a \$50 minimum initial investment. The minimum subsequent investment is \$100, except for IRA accounts, which require a minimum subsequent investment of \$50.

Fund shares are sold at net asset value plus an applicable sales load and are redeemed at net asset value. However, a contingent deferred sales charge 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), providing growth of capital and income through high-quality stocks;
- California Municipal Income Fund (Fortress Shares only), providing current income exempt from federal regular income tax and California personal income taxes;
- Fortress Adjustable Rate U.S. Government Fund, Inc., 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;
- Fortress Municipal Income Fund, Inc., providing a high level of current income generally exempt from federal regular income tax by investing primarily in a diversified portfolio of municipal bonds;
- Fortress Utility Fund, Inc., providing high current income and moderate capital appreciation primarily through equity and debt securities of utility companies;
- Government Income Securities, Inc., providing current income through long-term U.S. government securities;

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- Liberty Equity Income Fund, Inc. (Fortress Shares only), providing above average income and capital appreciation through income producing equity securities;
- Limited Term Fund (Fortress Shares only), providing a high level of current income consistent with minimum fluctuation in principal value;
- Limited Term Municipal Fund (Fortress Shares only), 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., providing current income consistent with stability of principal through high-quality money market instruments;
- New York Municipal Income Fund (Fortress Shares only), providing current income exempt from federal regular income tax, New York state personal income tax, and New York municipal income taxes;
- Ohio Municipal Income Fund (Fortress Shares only), providing current income exempt from federal regular income tax and Ohio personal income taxes; and
- World Utility Fund, providing total return by investing primarily in securities issued by domestic and foreign companies in the utilities industry.

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 fourteen investment vehicles, and by providing the investment services of a proven, professional investment adviser.

INVESTMENT INFORMATION

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. Unless stated otherwise, the investment policies of the Fund described below may be changed without shareholder approval. As a matter of investment policy, 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. ("Moody's"), Standard & Poor's Ratings Group ("S&P"), or Fitch Investors Service, Inc. A description of the ratings categories is contained in the Appendix to the Prospectus.

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INVESTMENT POLICIES

ACCEPTABLE INVESTMENTS. The Fund invests primarily in a professionally managed, diversified portfolio of investment grade bonds. The permitted investments include:

- 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 Fund's investment adviser);
- obligations of the United States;
- notes, bonds, and discount notes of the following U.S. government agencies or instrumentalities, such as 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, Federated Advisers (the "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 (i.e., "junk bonds"). 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

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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 S&P 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.

The prices of fixed income securities generally fluctuate inversely to the direction of interest rates.

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.

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

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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 tranche 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 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,

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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, as amended (the "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.

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 of the Corporation (the "Directors") to be illiquid,

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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 Directors 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 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 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 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 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.

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.

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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. These transactions are arrangements in which the Fund purchases securities with payment and delivery scheduled for a future time. The seller's failure to complete the transaction may cause the Fund to miss a price or yield considered to be advantageous. 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. Accordingly, the Fund may pay more/less than the market value of the securities on the settlement date.

The Fund may dispose of a commitment prior to settlement if the Adviser deems it appropriate to do so. In addition, the Fund may enter in transactions to sell its purchase commitments to third parties at current market values and simultaneously acquire other commitments to purchase similar securities at later dates. The Fund may realize short-term profits or losses upon the sale of such commitments.

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 Adviser has determined are creditworthy under guidelines established by the 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.

There is the risk that when lending portfolio securities, the securities may not be available to the Fund on a timely basis and the Fund may, therefore, lose the opportunity to sell the securities at a desirable price. In addition, in the event that a borrower of securities would file for bankruptcy or become insolvent, disposition of the securities may be delayed pending court action.

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 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

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(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 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 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 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

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- 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.

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

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. (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 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.

The financial institution which maintains investor accounts with the Fund must do so on a fully disclosed basis unless it accounts for share ownership periods used in calculating the contingent deferred sales charge (see "Contingent Deferred Sales Charge"). In addition, advance payments made to financial institutions may be subject to reclaim by the distributor for accounts transferred to financial institutions which do not maintain investor accounts on a fully disclosed basis and do not account for share ownership periods (see "Other Payments to Financial Institutions").

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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, Federated Services Company, P.O. Box 8604, Boston, Massachusetts 02266-8604.

Purchases by mail are considered received after payment by check is converted by the transfer agent's bank, State Street Bank and Trust Company ("State Street Bank"), into federal funds. This is generally the next business day after the transfer agent's 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 the transfer agent's bank receives payment by wire.

MINIMUM INVESTMENT REQUIRED

The minimum initial investment in the Fund is \$1,500, except for IRA accounts, which require a minimum initial investment of \$50. Subsequent investments must be in amounts of at least \$100, except for IRA accounts, 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 load of 1.00% of the offering price (which is 1.01% of the net amount invested). There is no sales load for purchases of \$1 million or more. In addition, no sales load is imposed for Fund shares purchased through bank trust departments or investment advisers registered under the Investment Advisers Act of 1940, as amended, 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. (Eastern 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 "Contingent Deferred Sales Charge," shareholders may be subject to a contingent deferred sales charge 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 load. Any portion of the sales load 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 load 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 load 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 LOAD

The sales load 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 load 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 load.

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 load on the additional purchase.

The Fund will also combine purchases for the purpose of reducing the contingent deferred sales charge 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 contingent deferred sales charge would be reduced to .50% of those additional shares. For more information on the level of the contingent deferred sales charge and holding periods, see the section entitled "Contingent Deferred Sales Charge."

To receive the sales load elimination and/or the contingent deferred sales charge 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 load and/or reduce the contingent deferred sales charge 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 load may be eliminated by signing a letter of intent to that effect. This letter of intent includes a provision for a sales load elimination depending on the amount actually purchased within the 13-month period and a provision for the Fund's custodian to hold 1.00% of the

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total amount intended to be purchased in escrow (in shares of the Fund) until such purchase is completed.

The 1.00% 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 1.00% sales load.

This letter of intent also includes a provision for reductions in the contingent deferred sales charge and holding period depending on the amount actually purchased within the 13-month period. For more information on the various levels of the contingent deferred sales charge and holding periods, see the section entitled "Contingent Deferred Sales Charge."

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 load. 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 load. If the shareholder redeems his shares in the Fund, there may be tax consequences.

CONCURRENT PURCHASES. For purposes of qualifying for a sales load 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 load. For example, if a shareholder concurrently invested \$400,000 in one of the other Fortress Funds and \$600,000 in the Fund, the sales load would be eliminated.

To receive this sales load 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 load 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 1.00% sales load 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 load (if previously paid) or a contingent deferred sales charge.

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 load, 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

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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 load 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, contact Federated Securities Corp. and consult a tax adviser.

REDEEMING SHARES

The Fund redeems shares at their net asset value, less any applicable contingent deferred sales charge, 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.

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, 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. If, at any time, the Fund shall determine it necessary to terminate or modify this method of redemption, shareholders will be promptly notified.

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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, less any applicable contingent deferred sales charge, 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.

CONTINGENT DEFERRED SALES CHARGE

Shareholders redeeming shares from their Fund accounts within certain time periods following the purchase date of those shares will be charged a contingent deferred sales charge by the Fund's

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distributor. The contingent deferred sales charge is calculated on the lesser of the original purchase price of the shares or the net asset value of the shares at the time of redemption, as follows:

<TABLE>
<CAPTION>

AMOUNT OF PURCHASE	SHARES HELD	CONTINGENT DEFERRED SALES LOAD
<S>	<C>	<C>
Up to \$1,999,999	less than 4 years	1.00%
\$2,000,000 to \$4,999,999	less than 2 years	0.50%
\$5,000,000 or more	less than 1 year	0.25%

</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 contingent deferred sales charge 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 the contingent deferred sales charge 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 contingent deferred sales charge 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 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. The contingent deferred sales charge is 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).

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A shareholder may apply for participation in this program through Federated Securities Corp. Due to the fact that shares are sold with a sales load, it is not advisable for shareholders to be purchasing shares while participating in this program.

The contingent deferred sales charge is charged for shares redeemed through this program within four years of their purchase dates.

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 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 contingent deferred sales charge or a sales load.

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 contingent deferred sales charge and possibly a sales load. 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 equal to the minimum investment requirements of the Fund into which the exchange is being made. 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

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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 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.

Joseph M. Balestrino has been the Fund's portfolio manager since June, 1992. 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.

Mark E. Durbiano has been the Fund's co-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.

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, a subsidiary of Federated Investors, provides administrative personnel and services (including certain legal and financial reporting services) necessary to operate the Corporation and the Fund. Federated Administrative Services

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provides these at an annual rate which relates to the average aggregate daily net assets of all funds advised by subsidiaries of Federated Investors (the "Federated Funds") as specified below:

<TABLE>

<CAPTION>

MAXIMUM ADMINISTRATIVE FEE	AVERAGE AGGREGATE DAILY NET ASSETS OF THE FEDERATED FUNDS
<C>	<S>
0.150 of 1%	on the first \$250 million
0.125 of 1%	on the next \$250 million
0.100 of 1%	on the next \$250 million
0.075 of 1%	on assets in excess of \$750 million

</TABLE>

The administrative fee received during any fiscal year shall be at least \$125,000 per portfolio and \$30,000 per each additional class of shares. Federated Administrative Services may choose voluntarily to waive a portion of its fee.

SHAREHOLDER SERVICES PLAN. The Fund has adopted a Shareholder Services Plan (the "Services Plan") under which it may make payments up to 0.25 of 1% of the average daily net asset value of the Fund to obtain certain personal services for shareholders and the maintenance of shareholder accounts ("shareholder services"). The Fund has entered into a Shareholder Services Agreement with Federated Shareholder Services, a subsidiary of Federated Investors, under which Federated Shareholder Services will either perform shareholder services directly or will select financial institutions to perform shareholder services. Financial institutions will receive fees 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 Fund and Federated Shareholder Services.

OTHER PAYMENTS TO FINANCIAL INSTITUTIONS. The Distributor will pay financial institutions, for distribution and/or administrative services, an amount equal to 1.00% of the offering price of the shares acquired by their clients or customers on purchases up to \$1,999,999, .50% of the offering price on purchases of \$2,000,000 to \$4,999,999, and .25% of the offering price on purchases of \$5,000,000 or more. (This fee is in addition to the 1.00% sales load on purchases of less than \$1 million.) The 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 contingent deferred sales charge.

Furthermore, the Adviser or its affiliate may offer to pay a fee from their own assets to financial institutions as financial assistance for providing substantial marketing, sales and operational support to the Distributor. The support may include sponsoring sales, educational and training seminars for their employees, providing sales literature, and engineering computer software programs that emphasize the attributes of the Fund. Such assistance will be predicated upon the amount of shares the dealer sells or may sell, and/or upon the type and nature of sales or operational support furnished by the dealer.

CUSTODIAN. State Street Bank and Trust Company, 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.

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LEGAL COUNSEL. Legal counsel is provided by Houston, Houston & Donnelly, Pittsburgh, Pennsylvania, and Dickstein, Shapiro & Morin, L.L.P., Washington, D.C.

INDEPENDENT AUDITORS. The independent auditors for the Fund are Ernst & Young LLP, Pittsburgh, Pennsylvania.

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 of December 12, 1994, Merrill Lynch Pierce Fenner & Smith, Jacksonville, Florida, acting in various capacities for numerous accounts, was the owner of record of approximately 4,589,529 shares (29.05%) of the Fund, and therefore, may, for certain purposes, be deemed to control the

Fund and be able to affect the outcome of certain matters presented for a vote of shareholders.

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 Code 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

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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 Code.

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.

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 contingent deferred sales charge, 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, 1994

<TABLE> <CAPTION> PRINCIPAL AMOUNT		VALUE
<C>	<S>	<C>
CORPORATE BONDS--88.3%		
AEROSPACE & DEFENSE--2.5%		
\$3,450,000	Grumman Corp., Deb., 10.375%, 1/1/99	\$ 3,586,827
AIR TRANSPORTATION--3.5%		
2,000,000	AMR Corp., Deb., 10.00%, 2/1/2001	2,061,540
2,100,000	Southwest Airlines, Inc., Deb., 9.40%, 7/1/2001	2,213,169
1,000,000	US Air, Inc., Pass Thru Cert., Series 1993-A2, 9.625%, 9/1/2003	840,000
	Total	5,114,709
AUTOMOTIVE--3.9%		
500,000	Aftermarket Technology Corp., Sr. Sub. Note, 12.00%, 8/1/2004	508,750
2,000,000	Arvin Industries, Inc., Note, 6.875%, 2/15/2001	1,809,780
2,200,000	Chrysler Corp., Deb., 12.375%, 5/1/2020	2,892,846
500,000	Motor Wheel Corp., Sr. Note, Series B, 11.50%, 3/1/2000	491,250
	Total	5,702,626
BANKING--0.4%		
500,000	First Nationwide Holdings, Inc., Sr. Note, 12.25%, 5/15/2001	521,250
BROADCAST RADIO & TV--1.7%		
500,000	Allbritton Communications Co., Sr. Sub. Note, 11.50%, 8/15/2004	510,000
500,000	Chancellor Broadcasting Co., Sr. Sub. Note, 12.50%, 10/1/2004	500,000
1,000,000	SCI Television, Inc., Sr. Secd. Note, 11.00%, 6/30/2005	1,015,000
500,000	Sinclair Broadcast Group Inc., Sr. Sub. Note, 10.00%, 12/15/2003	482,500
	Total	2,507,500
BUSINESS EQUIPMENT & SERVICES--0.7%		
500,000	Anacomp, Inc., Sr. Sub. Note, 15.00%, 11/1/2000	552,500
500,000	Bell & Howell Co., Sr. Sub. Note, Series B, 10.75%, 10/1/2002	482,500
	Total	1,035,000

</TABLE>

FORTRESS BOND FUND

<TABLE> <CAPTION> PRINCIPAL AMOUNT		VALUE
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<C>	<S>	<C>
CORPORATE BONDS--CONTINUED		

CABLE TELEVISION--2.2%		
\$ 500,000	Cablevision Systems Corp., Sr. Sub. Deb., 9.875%, 2/15/2013	\$ 462,500
1,000,000	Continental Cablevision Inc., Sr. Deb., 9.50%, 8/1/2013	905,000
1,500,000	International Cabletel, Inc., Sr. Dfd. Coupon Note, 0/10.875%, 10/15/2003	836,250
500,000	Marcus Cable Operating Co. L.P., Sr. Deb., 11.875%, 10/1/2005	466,250
1,000,000	Rogers Cablesystems Ltd., Sr. Secd. Note, 9.65%, 1/15/2014	620,659
	Total	3,290,659

CHEMICALS & PLASTICS--4.2%		
1,500,000	Arcadian Partners L.P., Sr. Note, Series B, 10.75%, 5/1/2005	1,473,750
500,000	Foamex Capital Corp., Sr. Sub. Deb., 11.875%, 10/1/2004	502,500
2,500,000	G-I Holdings, Inc., Sr. Disc. Note, Series B, 11.375%, 10/1/98	1,525,000
875,000	Harris Chemical North America, Inc., Sr. Secd. Disc. Note, 0/10.25%, 7/15/2001	710,938
500,000	LaRoche Industries, Inc., Sr. Sub. Note, 13.00%, 8/15/2004	478,750
500,000	Polymer Group, Inc., Sr. Note, 12.25%, 7/15/2002	500,000
1,000,000	UCC Investors Holdings, Inc., Sr. Sub. Note, 11.00%, 5/1/2003	1,010,000
	Total	6,200,938

CLOTHING & TEXTILES--1.9%		
1,800,000	Reebok International Ltd., Deb., 9.75%, 9/15/98	1,846,548
1,000,000	Westpoint Stevens, Inc., Sr. Sub. Deb., 9.375%, 12/15/2005	902,500
	Total	2,749,048

CONGLOMERATES--4.5%		
2,500,000	Leucadia National Corp., Sr. Sub., 10.375%, 6/15/2002	2,637,500
2,000,000	Noranda, Inc., Deb., 8.125%, 6/15/2004	1,921,520
1,000,000	Noranda, Inc., Deb., 8.625%, 7/15/2002	1,001,100
1,000,000	Sherritt Gordon Ltd., Sr. Note, 9.75%, 4/1/2003	965,000
	Total	6,525,120

</TABLE>

FORTRESS BOND FUND

<C>	<S>	<C>
CORPORATE BONDS--CONTINUED		

CONTAINER & GLASS PRODUCTS--1.9%		
\$1,000,000	Owens-Corning Fiberglass Corp., Deb., 9.375%, 6/1/2012	\$ 1,010,760
750,000	Silgan Holdings, Inc., Sr. Disc. Deb., 0/13.25%, 12/15/2002	605,625

1,000,000	U.S. Can Co., Sr. Sub. Note, 13.50%, 1/15/2002	1,115,000
	Total	2,731,385

	COSMETICS & TOILETRIES--0.8%	
2,000,000	Revlon World Wide Corp., Sr. Secd. Discount Note, Series B, 12.00% accrual, 3/15/98	1,110,000

	ECOLOGICAL SERVICES & EQUIPMENT--1.3%	
500,000	Allied Waste Industries, Inc., Sr. Sub. Note, 10.75%, 2/1/2004	465,000
1,000,000	ICF Kaiser International, Inc., Sr. Sub. Note, 12.00% 12/31/2003	880,000
500,000	Mid-American Waste Systems, Inc., Sr. Sub. Note, 12.25%, 2/15/2003	492,500
	Total	1,837,500

	FINANCE / AUTOMOTIVE--2.1%	
1,000,000	Ford Capital, Deb., 9.00%, 8/15/98	1,032,440
2,000,000	General Motors Acceptance Corp., Medium Term Note, 7.50%, 5/18/98	1,980,740
	Total	3,013,180

	FINANCIAL INTERMEDIARIES--1.7%	
500,000	Coldwell Banker Corp., Sr. Sub. Note, Series B, 10.25%, 6/30/2003	513,125
2,000,000	Merrill Lynch & Co., Inc., Medium Term Note, 7.25%, 6/14/2004	1,966,820
	Total	2,479,945

	FOOD & DRUG RETAILERS--4.0%	
1,000,000	Grand Union Co., Sr. Sub. Note, 12.25%, 7/15/2002	700,000
4,075,000	Hook-Superx, Inc., Sr. Note, 10.125%, 6/1/2002	4,217,625
1,000,000	Pathmark Stores, Inc., Sr. Sub. Note, 9.625%, 5/1/2003	888,750
	Total	5,806,375

</TABLE>

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FORTRESS BOND FUND

<TABLE>

<CAPTION>

PRINCIPAL
AMOUNT

VALUE

<C>	<S>	<C>
	CORPORATE BONDS--CONTINUED	

	FOOD PRODUCTS--3.5%	
\$ 500,000	Curtice-Burns Foods, Inc., Sr. Sub. Note, 12.75%, 2/1/2005	\$ 505,000
500,000	Doskocil Cos., Inc., Sr. Sub. Note, 9.75%, 7/15/2000	437,500
2,000,000	Grand Metropolitan Investment Corp., Company Guarantee, 7.00%, 6/15/99	1,930,540
1,000,000	PMI Acquisition Corp., Sr. Sub. Note, 10.25%, 9/1/2003	972,500
3,000,000	Specialty Foods Acquisition Corp., Sr. Secd. Disc. Deb., Series B, 0/13.00%, 8/15/2005	1,305,000
	Total	5,150,540

	FOOD SERVICES--1.6%	

1,000,000	Americold Corp., First Mortgage Bond, Series B, 11.50%, 3/1/2005	900,000
500,000	Flagstar Corp., Sr. Note, 10.75%, 9/15/2001	472,500
500,000	Flagstar Corp., Sr. Note, 10.875%, 12/1/2002	471,250
500,000	Flagstar Corp., Sr. Sub. Deb., 11.25%, 11/1/2004	427,500
	Total	2,271,250
FOREST PRODUCTS--4.5%		
500,000	Domtar, Inc., Deb., 11.25%, 9/15/2017	508,750
500,000	Domtar, Inc., Note, 12.00%, 4/15/2001	537,500
1,000,000	Georgia-Pacific Corp., Deb., 10.125%, 5/15/2000	1,019,740
2,500,000	Georgia-Pacific Corp., Deb., 9.50%, 5/15/2022	2,516,125
500,000	Riverwood International Corp., Sr. Sub. Note, 11.25%, 6/15/2002	518,750
500,000	Stone Container Corp., Sr. Note, 11.50%, 10/1/2004	505,625
1,000,000	Stone Container Corp., Sr. Note, 9.875%, 2/1/2001	943,750
	Total	6,550,240
GOVERNMENT AGENCY--1.2%		
2,000,000	Tennessee Valley Authority, Deb., 7.85%, 6/15/2044	1,769,420
HEALTH SERVICES--1.3%		
2,000,000	Columbia HCA Healthcare Corp., Medium Term Note, 8.05%, 8/25/2006	1,904,000

</TABLE>

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FORTRESS BOND FUND

<TABLE>		
<CAPTION>		
PRINCIPAL		VALUE
AMOUNT		
<C>	<S>	<C>
CORPORATE BONDS--CONTINUED		
HEALTHCARE--0.8%		
\$1,111,175	Amerisource Corp., Sr. PIK Deb., 11.25%, 7/15/2005	\$ 1,122,287
HOME PRODUCTS & FURNISHINGS--0.8%		
1,750,000	American Standard, Inc., Sr. Sub. Disc. Deb., 0/10.50%, 6/1/2005	1,181,250
HOTELS, MOTELS, INNS & CASINOS--0.4%		
500,000	Motels of America, Inc., Sr. Sub. Note, 12.00%, 4/15/2004	567,500
INDUSTRIAL PRODUCTS & EQUIPMENT--3.6%		
500,000	Truck Components, Inc., Sr. Note, Series B, 12.25%, 6/30/2001	526,250
4,435,000	Varity Corp., Sr. Note, 11.375%, 11/15/98	4,734,362
	Total	5,260,612
INSURANCE--3.0%		
2,000,000	Delphi Financial Group Inc., Note, 8.00%, 10/1/2003	1,684,000
3,000,000	Sunamerica, Inc., Deb., 8.125%, 4/28/2023	2,664,390
	Total	4,348,390

LEISURE & ENTERTAINMENT--0.6%		
1,000,000	Paramount Communications, Inc., Sr. Deb., 8.25%, 8/1/2022	831,640
OIL & GAS--9.9%		
2,710,000	Ashland Oil, Inc., Deb., 11.125%, 10/15/2017	3,057,720
1,000,000	Burlington Resources, Note, 7.15%, 5/1/99	973,200
1,000,000	Falcon Drilling Co., Inc., Sr. Note, Series B, 9.75%, 1/15/2001	972,500
1,000,000	Giant Industries, Sr. Sub. Note, 9.75%, 11/15/2003	930,000
1,000,000	H.S. Resources, Inc., Sr. Sub. Note, 9.875%, 12/1/2003	942,500
1,000,000	Occidental Petroleum Corp., Sr. Deb., 11.125%, 6/1/2019	1,130,940
1,000,000	Triton Energy Corp., Sr. Sub. Disc. Note, 0/9.75%, 12/15/2000	755,000
2,000,000	USX Corp., Deb., 9.125%, 1/15/2013	1,919,120

</TABLE>

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FORTRESS BOND FUND

<TABLE>		
<CAPTION>		
PRINCIPAL AMOUNT		VALUE
<C>	<S>	<C>
CORPORATE BONDS--CONTINUED		
OIL & GAS--CONTINUED		
\$1,000,000	USX Corp., Note, 6.375%, 7/15/98	\$ 940,520
3,000,000	Western Atlas, Inc., Deb., 8.55%, 6/15/2024	2,827,440
	Total	14,448,940
PRINTING & PUBLISHING--3.1%		
500,000	Affiliated Newspaper, Sr. Disc. Note, Class B, 0/13.25%, 7/1/2006	260,000
250,000	Garden State Newspapers, Inc., Sr. Sub. Note, 12.00%, 7/1/2004	248,750
1,000,000	News America Holdings, Inc., Sr. Note, 12.00%, 12/15/2001	1,132,220
3,000,000	News America Holdings, Inc., Sr. Note, 8.50%, 2/15/2005	2,881,590
	Total	4,522,560
RETAILERS--1.4%		
1,000,000	Brylane Capital Corp., Sr. Sub. Note, Series B, 10.00%, 9/1/2003	947,500
1,000,000	J.C. Penney Co., S.F. Deb., 9.75%, 6/15/2021	1,058,850
	Total	2,006,350
SOVEREIGN GOVERNMENT--8.8%		
2,500,000	Freeport Terminal (Malta) Ltd., Gtd. Global Note, 7.50%, 3/29/2009	2,281,475
1,400,000	New Zealand Government, Deb., 10.50%, 7/16/2000	1,498,000
1,000,000	Province of New Brunswick, Local Government Guarantee, 9.75%, 5/15/2020	1,091,100
1,500,000	Province of Quebec, Deb., 13.25%, 9/15/2014	1,854,525
2,000,000	Province of Quebec, Deb., 7.50%, 7/15/2023	1,687,020

2,000,000	Republic of Columbia, Note, 8.75%, 10/6/99	1,977,420
2,500,000	Victoria Public Authority, Local Government Guarantee, 8.25%, 1/15/2002	2,484,375
	Total	12,873,915

</TABLE>

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FORTRESS BOND FUND

<TABLE> <CAPTION> PRINCIPAL AMOUNT OR SHARES		VALUE
<C>	<S>	<C>
CORPORATE BONDS--CONTINUED		
STEEL--2.8%		
\$ 500,000	Armco, Inc., Sr. Note, 11.375%, 10/15/99	\$ 511,250
500,000	Armco, Inc., Sr. Note, 9.375%, 11/1/2000	464,375
1,000,000	Carbide/Graphite Group Inc., Sr. Note, 11.50%, 9/1/2003	1,010,000
1,250,000	Envirosource, Inc., Sr. Note, 9.75%, 6/15/2003	1,109,375
500,000	Geneva Steel, Sr. Note, 11.125%, 3/15/2001	497,500
500,000	Geneva Steel, Sr. Note, 9.50%, 1/15/2004	445,625
	Total	4,038,125
SURFACE TRANSPORTATION--2.8%		
2,000,000	American President Co. Ltd., Sr. Note, 7.125%, 11/15/2003	1,764,060
1,000,000	Sea Containers Ltd., Sr. Note, 9.50%, 7/1/2003	928,750
500,000	Trans Ocean Container Corp., Sr. Sub. Note, 12.25%, 7/1/2004	492,500
1,000,000	Trism, Inc., Sr. Sub. Note, 10.75%, 12/15/2000	985,000
	Total	4,170,310
TELECOMMUNICATIONS & CELLULAR--0.5%		
1,000,000	Panamsat, L.P., Sr. Sub. Disc. Note, 0/11.375%, 8/1/2003	677,500
TOBACCO--0.5%		
750,000	Philip Morris, Deb., 8.625%, 3/1/99	769,462
UTILITIES--0.4%		
750,000	California Energy Co., Inc., Sr. Disc. Note, 0/10.25%, 1/15/2004	533,438
	TOTAL CORPORATE BONDS (IDENTIFIED COST \$136,358,135)	129,209,791
CONVERTIBLE PREFERRED STOCKS--2.0%		
BANKING--2.0%		
150,000	Citicorp., PERCS, Series 15, 8.25%	2,943,750
	TOTAL CONVERTIBLE PREFERRED STOCKS (IDENTIFIED COST \$2,975,000)	\$ 2,943,750

</TABLE>

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FORTRESS BOND FUND

<TABLE> <CAPTION> PRINCIPAL AMOUNT OR SHARES		VALUE
<C>	<S>	<C>

COMMON STOCKS--0.0%		

ECOLOGICAL SERVICES & EQUIPMENT--0.0%		

4,800(a)	ICF Kaiser International, Inc., Warrants	\$ 2,400

PRINTING & PUBLISHING--0.0%		

500(a)	Affiliated Newspaper	12,562

TOTAL COMMON STOCKS (IDENTIFIED COST \$16,831)		14,962

ASSET-BACKED SECURITIES--4.7%		

STRUCTURED PRODUCTS--4.7%		

\$1,000,000	Discover Card Trust 1991-B, Class B, 8.85%, 7/15/98	1,023,810

1,000,000	GE Capital Home Equity Loan 1991-1, Class B, 8.70%, 8/30/2011	988,330

1,000,000	Greentree Financial Corp., 1992-2, Class B, 9.15%, 1/15/2018	1,003,750

2,000,000	MBNA Master Credit Card Trust, 1992-2, Class A, 6.20%, 8/15/99	1,928,720

1,000,000	Merrill Lynch Mortgage Investment, Inc., 1988-H, Class B, 9.70%, 6/15/2008	1,021,880

1,000,000	Residential Funding Corp., 1993-S26, Class A10, 7.50%, 7/25/2023	843,120

TOTAL ASSET-BACKED SECURITIES (IDENTIFIED COST \$7,290,312)		6,809,610

MORTGAGE-BACKED SECURITIES--1.5%		

GOVERNMENT AGENCY--1.5%		

2,420,238	Government National Mortgage Association, Pool 379983, 7.50%, 2/15/2024	2,246,998

TOTAL MORTGAGE-BACKED SECURITIES (IDENTIFIED COST \$2,443,684)		2,246,998

*REPURCHASE AGREEMENT--1.1%		

1,605,000	J.P. Morgan Securities, Inc., 4.82%, dated 10/31/94, due 11/1/94 (at amortized cost)	1,605,000

TOTAL INVESTMENTS (IDENTIFIED COST \$150,688,962)		\$142,830,111+

<FN>

+ The cost of investments for federal tax purposes amounts to \$150,688,962. The net unrealized depreciation on a federal tax cost basis amounts to \$7,858,851, and is comprised of \$329,907 appreciation and \$8,188,758 depreciation at October 31, 1994.

* The repurchase agreement is fully collateralized by U.S. government obligations. The investment in the repurchase agreement is through participation in a joint account with other Federated funds.

(a) Non-income Producing.

Note: The categories of investments are shown as a percentage of net assets (\$146,270,055) at October 31, 1994.

</TABLE>

FORTRESS BOND FUND

<TABLE>

<S> <C>

The following abbreviations are used in this portfolio:

PERCS --Preferred Equity Redeemable Preferred Stock
 PIK --Payment in Kind
 SF --Sinking Fund
 </TABLE>

(See Notes which are an integral part of the Financial Statements)

FORTRESS BOND FUND

STATEMENT OF ASSETS AND LIABILITIES
 OCTOBER 31, 1994

<S>	<C>
ASSETS:	
Investments in securities, at value (identified and tax cost: \$150,688,962)	\$142,830,111
Cash	19,855
Receivable for investments sold	3,706,172
Interest receivable	3,546,494
Receivable for capital stock sold	699,579
Total assets	150,802,211

LIABILITIES:

<S>	<C>	<C>
Payable for investments purchased	\$2,487,041	
Payable for capital stock redeemed	1,299,169	
Dividends payable	623,242	
Accrued expenses and other liabilities	122,704	

<S>	<C>
Total liabilities	4,532,156

NET ASSETS for 16,110,377 shares of capital stock outstanding \$146,270,055

NET ASSETS CONSIST OF:

Paid-in capital	\$157,260,387
Net unrealized appreciation (depreciation) of investments	(7,858,851)
Accumulated net realized gain (loss) on investments	(3,335,869)
Undistributed net investment income	204,388
Total Net Assets	\$146,270,055

NET ASSET VALUE, and Redemption Proceeds Per Share:
 (net assets of \$146,270,055 DIVIDED BY 16,110,377 shares of capital stock
 outstanding) \$ 9.08

COMPUTATION OF OFFERING PRICE:

Offering Price Per Share (100/99 of \$9.08)*	\$ 9.17
--	---------

<FN>

* See "What Shares Cost" in the prospectus.

</TABLE>

(See Notes which are an integral part of the Financial Statements)

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FORTRESS BOND FUND
STATEMENT OF OPERATIONS
YEAR ENDED OCTOBER 31, 1994

	<C>	<C>
INVESTMENT INCOME:		
Interest		\$12,799,966
Dividends		118,106
Total investment income		12,918,072
EXPENSES:		
Investment advisory fee	\$1,081,066	
Directors' fees	5,008	
Administrative personnel and services	192,379	
Custodian and portfolio accounting fees	66,297	
Transfer and dividend disbursing agent fees and expenses	134,126	
Shareholder services fee	350,007	
Fund share registration costs	41,758	
Auditing fees	13,508	
Legal fees	9,189	
Printing and postage	41,014	
Insurance premiums	6,784	
Taxes	40,247	
Miscellaneous	6,621	
Total expenses	1,988,004	
Deduct--Waiver of investment advisory fee	481,690	
Net expenses		1,506,314
Net investment income		11,411,758
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized gain (loss) on investment transactions (identified cost basis)		(3,358,420)
Net change in unrealized appreciation (depreciation) of investments		(13,277,162)
Net realized and unrealized gain (loss) on investments		(16,635,582)
Change in net assets resulting from operations		\$(5,223,824)

</TABLE>

(See Notes which are an integral part of the Financial Statements)

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FORTRESS BOND FUND
STATEMENT OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,	
	1994	1993
<S>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:		
OPERATIONS--		
Net investment income	\$ 11,411,758	\$ 6,888,178
Net realized gain (loss) on investment transactions (\$3,359,826 net loss and \$2,084,112 net gain, respectively, as computed for federal tax purposes)	(3,358,420)	2,082,462
Change in unrealized appreciation (depreciation) of investments	(13,277,162)	6,719,114
Change in net assets resulting from operations	(5,223,824)	15,689,754
NET EQUALIZATION CREDITS	81,055	116,945
DISTRIBUTIONS TO SHAREHOLDERS--		
Dividends to shareholders from net investment income	(11,262,574)	(7,005,123)
Distributions to shareholders from net realized gain on investment transactions	(1,863,673)	--
Distributions in excess of net investment income	--	(20,955)
Change in net assets from distributions to shareholders	(13,126,247)	(7,026,078)
CAPITAL STOCK TRANSACTIONS--(EXCLUSIVE OF AMOUNTS ALLOCATED TO NET INVESTMENT INCOME)		
Proceeds from sale of shares	84,985,424	84,195,992
Net asset value of shares issued to shareholders in payment of dividends declared	4,135,607	2,669,825
Cost of shares redeemed	(50,343,919)	(24,770,792)
Change in net assets from capital stock transactions	38,777,112	62,095,025
Change in net assets	20,508,096	70,875,646
NET ASSETS:		
Beginning of period	125,761,959	54,886,313
End of period (including undistributed net investment income of \$204,388 and \$0, respectively)	\$ 146,270,055	\$ 125,761,959

</TABLE>

(See Notes which are an integral part of the Financial Statements)

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FORTRESS BOND FUND

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 1994

(1) ORGANIZATION

Investment Series Funds, Inc. (the "Corporation") is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company. The Corporation consists of two diversified portfolios. The financial statements included herein present only those of Fortress Bond Fund (the "Fund"). The financial statements of the other portfolio 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. Effective February 3, 1993, the Fund was registered into a portfolio of Investment Series Funds, Inc. Prior to that date, the Fund was operated as a portfolio of Investment Series Trust.

(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. These policies are in conformity with generally accepted accounting principles.

- A. INVESTMENT VALUATIONS--Listed corporate bonds and other fixed-income and asset backed securities are valued at the last sale price reported on national securities exchanges. Unlisted bonds and securities and short-term obligations are valued at the prices provided by an independent pricing service. Listed equity securities are valued at the last sale price reported on national securities exchanges. Unlisted securities and short-term obligations (and private placement securities) are generally valued at the prices provided by an independent pricing service. Short-term securities with remaining maturities of sixty days or less may be stated at amortized cost, which approximates value.

During the year ended October 31, 1994, the Fund changed its method of accounting for costing securities and calculating gains and losses for financial reporting purposes from the average cost method to the specific identification method. This accounting change resulted only in reclassification between unrealized and realized gains and losses, and therefore had no effect on the net results from operations, net assets or net asset value per share. The specific identification method is the preferred method used in the industry and it more closely agrees with the costing method for federal tax purposes.

- B. REPURCHASE AND REVERSE 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 that the value of collateral at least equals the principal amount of the repurchase agreement, including accrued interest.

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FORTRESS BOND FUND

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 Board of Directors of the Corporation (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.

- C. INVESTMENT INCOME, EXPENSES AND DISTRIBUTIONS--Interest income and expenses are accrued daily. Bond premium and discount, if applicable, are amortized as required by the Internal Revenue Code, as amended (the "Code"). Distributions to shareholders are recorded on the ex-dividend date.

Distributions are determined in accordance with income tax regulations which may differ from generally accepted accounting principles. These distributions do not represent a return of capital for federal income tax purposes.

- D. FEDERAL TAXES--It is the Fund's policy to comply with the provisions of the Code applicable to regulated investment companies and to distribute to shareholders each year substantially all of its taxable income. Accordingly, no provisions for federal tax are necessary. At October 31, 1994, the Fund, for federal tax purposes, had a capital loss carryforward of \$3,359,826, which will reduce the Fund's taxable income arising from future net realized gain on investments, if any, to the extent permitted by the Code, and thus

will reduce the amount of the distributions to shareholders which would otherwise be necessary to relieve the Fund of any liability for federal tax. Pursuant to the Code, such capital loss carryforward will expire in 2002 (\$3,359,826).

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

FORTRESS BOND FUND

(3) CAPITAL STOCK

At October 31, 1994, there were 1,000,000,000,000 shares (\$.0001 par value per share) of capital stock of the Fund authorized. Transactions in capital stock were as follows:

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,	
	1994	1993
<S>	<C>	<C>
Shares sold	8,746,756	8,508,866
Shares issued to shareholders in payment of dividends declared	436,461	269,258
Shares redeemed	(5,284,540)	(2,510,109)
Net change resulting from Fund share transactions	3,898,677	6,268,015

</TABLE>

(4) INVESTMENT ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

INVESTMENT ADVISORY FEE--Federated Advisers, the Fund's investment adviser (the "Adviser"), receives for its services an annual investment advisory fee equal to .75 of 1% of the Fund's average daily net assets. The Adviser may voluntarily choose to waive a portion of its fee and to reimburse certain operating expenses of the Fund. The Adviser can modify or terminate this voluntary waiver and reimbursement at any time at its sole discretion.

ADMINISTRATIVE FEE--Federated Administrative Services ("FAS") provides the Fund with administrative personnel and services. Prior to March 1, 1994, these services were provided at approximate cost. Effective March 1, 1994, the FAS fee is based on the level of average aggregate daily net assets of all funds advised by subsidiaries of Federated Investors for the period. The administrative fee received during the period of the Administrative Services Agreement shall be at least \$125,000 per portfolio and \$30,000 per each additional class of shares.

SHAREHOLDER SERVICES FEE--Under the terms of a Shareholder Services Agreement with Federated Shareholder Services ("FSS"), the Fund will pay FSS up to .25 of 1% of average net assets of the Fund for the period. This fee is incurred to obtain certain personal services for shareholders and to maintain the shareholder accounts.

TRANSFER AGENT AND DIVIDEND DISBURSING AGENT FEES--Federated Services Company ("FServ") serves as transfer agent and dividend disbursing agent for the Fund. The FServ fee is based on the size, type, and number of accounts and

transactions made by shareholders.

Certain of the Officers and Trustees of the Fund are Officers and Directors or Trustees of the above companies.

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FORTRESS BOND FUND

(5) INVESTMENT TRANSACTIONS

Purchases and sales of investments, excluding short-term securities, for the fiscal year ended October 31, 1994, were as follows:

<S>	<C>
PURCHASES	\$140,759,517
SALES	\$103,126,151

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REPORT OF ERNST & YOUNG LLP,
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 Investment Series Funds, Inc.) as of October 31, 1994, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended and the financial highlights (see page 2 of the prospectus) for each of 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. These 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, 1994, 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 at October 31, 1994, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Pittsburgh, Pennsylvania
December 9, 1994

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APPENDIX (UNAUDITED)

STANDARD AND POOR'S RATINGS GROUP ("S&P") CORPORATE BOND RATINGS

AAA--Debt rated "AAA" has the highest rating assigned by S& P. 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.

Plus (+) or minus (-): The ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

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 edged." 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

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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. 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, but the margin of safety is not as great as the F-1+ and F-1 categories.

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ADDRESSES

<TABLE>	
<S>	<C>
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, L.L.P.	2101 L Street, N.W. Washington, D.C. 20037
Independent Auditors Ernst & Young LLP	One Oxford Center Pittsburgh, Pennsylvania 15219
</TABLE>	

FORTRESS BOND FUND
PROSPECTUS

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

Prospectus dated December 31,
1994

[LOGO] FEDERATED SECURITIES CORP.

Distributor
A subsidiary of FEDERATED INVESTORS
FEDERATED INVESTORS TOWER
PITTSBURGH, PA 15222-3779
461444309
2041304A (12/94)

[RECYCLED PAPER SYMBOL]

FORTRESS BOND FUND

ANNUAL REPORT FOR FISCAL YEAR ENDED OCTOBER 31, 1994

MANAGEMENT DISCUSSION AND ANALYSIS

Fortress Bond Fund (the "Fund") represents an investment grade corporate bond portfolio that generally invests at least 65% of its assets in fixed income securities rated BBB or higher by a nationally recognized statistical rating organization. The Fund may also invest in other fixed income securities including U.S. government obligations, asset-backed securities, and high-yield, lower quality bonds.

Over the 12-month reporting period ended October 31, 1994, the domestic economic recovery transformed from modest growth to increasingly stronger activity, with each subsequent quarter resulting in higher than expected growth. Starting in February 1994, the Federal Reserve Board continually raised short-term interest rates in an effort to fight potentially mounting inflationary pressures. As a result, all U.S. Treasury securities along the yield curve experienced higher rates over the 12-month period ended October 31, 1994. The short end, as is to be expected, demonstrated the highest degree of absolute volatility with the 2-year Treasury rising 283 basis points. At the long end, the 30-year Treasury rose 200 basis points in yield.

The end result of higher interest rates is that the U.S. Treasury bond market experienced one of its worst bear markets in decades with negative total returns representing the norm for most fixed income securities. Relative to Fortress Bond Fund shareholders, it was a good news/bad news scenario. The Fund significantly reduced overall duration in the fall of 1993 and into 1994, thus cushioning part of, but certainly not all of, the effects of rising interest rates. At the same time, the Fund placed greater emphasis on corporate bonds in the medium-to lower-rated categories to take advantage of a stronger economic recovery. Thus, while the Fund generated an average annual return of -3.41% total return for the 12-month period ended October 31, 1994*, it significantly outperformed the returns of both the Lipper Corporate Debt Funds BBB Rated Average** category of -5.37% and the Lehman Brothers Corporate Bond Index** at -5.18%.

In recognition of the fact that the domestic economic recovery is now over 3 1/2 years in length, Fund management will be closely monitoring economic developments for signs of potentially slowing growth characteristics (i.e., housing, auto sales, etc.). Should it become apparent that the growth cycle is peaking, the Fund will move to a more neutral-to-positive position by gradually lengthening the Fund's overall duration by purchasing longer dated, high-quality securities.

*BASED ON NET ASSET VALUE, WHICH DOES NOT REFLECT A SALES LOAD OR CONTINGENT DEFERRED SALES CHARGE, IF APPLICABLE. PERFORMANCE QUOTED REPRESENTS PAST PERFORMANCE. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE SO AN INVESTOR'S SHARES, WHEN REDEEMED, MAY BE WORTH MORE OR LESS THAN THEIR ORIGINAL COST.

**THESE INDICES ARE UNMANAGED.

FORTRESS BOND FUND

GROWTH OF \$10,000 INVESTED IN FORTRESS BOND FUND.

The graph below illustrates the hypothetical investment of \$10,000 in Fortress Bond Fund* (the "Fund") from May 20, 1987 (start of performance) to October 31, 1994, compared to the Lehman Brothers Corporate Bond Index (LCBI)+ and the Lipper Corporate Debt Funds BBB Rated Average (LCDBBB).++

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

<TABLE>
<CAPTION>

Graphic representation "D" omitted. See appendix.

<S>	LEHMAN BROTHERS		LIPPER CORPORATE DEBT FUNDS	
	FORTRESS BOND FUND	CORPORATE BOND INDEX	BBB RATED AVERAGE	
<C>	<C>	<C>	<C>	
5/20/87	9900	10000	10000	
10/31/87	10183	10103	10042	
10/31/88	11096	11443	11237	
10/31/89	11549	12862	12298	
10/31/90	10183	13398	12621	

10/31/91	14621	15760	14778
10/31/92	16633	17511	16374
10/31/93	20061	20167	18848
10/31/94	19002	19122	17836

AVERAGE ANNUAL TOTAL RETURN FOR THE PERIOD ENDED OCTOBER 31, 1994

<TABLE>	
<S>	<C>
1 Year.....	(5.28)%
5 Year.....	10.69%
Start of Performance (5/20/87).....	9.29%
</TABLE>	

PAST PERFORMANCE IS NOT PREDICTIVE OF FUTURE PERFORMANCE. YOUR INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE SO THAT WHEN SHARES ARE REDEEMED THEY MAY BE WORTH MORE OR LESS THAN ORIGINAL COST. MUTUAL FUNDS ARE NOT OBLIGATIONS OF, OR GUARANTEED BY, ANY BANK AND ARE NOT FEDERALLY INSURED.

This report must be preceded or accompanied by the Fund's prospectus dated December 31, 1994, and, together with the financial statements contained therein, constitutes the Fund's annual report.

*The Fund changed its investment policy from investing primarily in lower-rated bonds to investing primarily in investment-grade bonds effective July 1, 1992.

**Represents a hypothetical investment of \$10,000 in the Fund after deducting the maximum sales load of 1.00% (\$10,000 investment minus \$100 sales load = \$9,900). The Fund's performance assumes the reinvestment of all dividends and distributions. LCBI and LCDBBB have been adjusted to reflect reinvestment of dividends on securities in the indices.

+The LCBI is not adjusted to reflect sales loads, expenses, or other fees that the Securities and Exchange Commission requires to be reflected in the Fund's performance.

++The LCDBBB is a compilation of a specified category of mutual fund total returns reported to Lipper Analytical Services, Inc. Each fund is reported net of sales loads, expenses, or other fees that the Securities and Exchange Commission requires to be reflected in a fund's performance.

[LOGO]

Distributor
461444309
3110812-ARS (12/94)

[LOGO]
RECYCLED
PAPER

Capital Growth Fund

(A Portfolio of Investment Series Funds, Inc.)
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 Class A Shares and Class C Shares of Capital Growth Fund (the "Fund") dated December 31, 1994. This Combined Statement is not a prospectus itself. To receive a copy of any of the prospectuses, write or call the Fund.

Federated Investors Tower

Statement dated December 31, 1994

FEDERATED SECURITIES

CORP.

Distributor

A subsidiary of

Federated Investors

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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 which is organized under the laws of the State of Maryland. It is qualified to do business as a foreign corporation in Pennsylvania. Shares of the Fund are offered in two classes: Class A 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, Federated Advisers (the "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 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 (the "SEC") 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 Ratings Group, 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 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
othe 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:

- oFederal Farm Credit Banks;
- oFederal Home Loan Banks;
- oFederal National Mortgage Association;
- oStudent Loan Marketing Association; and
- oFederal Home Loan Mortgage Corporation.

Restricted and Illiquid Securities

The ability of the Board of Directors of the Corporation (the "Directors") to determine the liquidity of certain restricted securities is permitted under a SEC 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 SEC 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:

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

When-Issued and Delayed Delivery Transactions

These transactions are made to secure what is considered to be an advantageous price or yield for the Fund. 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 on the Fund's records at the trade date. These assets are marked to market daily and are maintained until the transaction has been settled. 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 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 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 years ended October 31, 1994, and 1993, the portfolio turnover rates were 86% and 74%, 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. 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 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, 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% of the offering price of such securities. The Fund will purchase securities of 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 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 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.

For purposes of its limitations, 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.

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.

Investment Series Funds, Inc. Management Officers and Directors are listed with their addresses, present positions with Investment Series Funds, Inc., and principal occupations.

John F. Donahue@*
Federated Investors Tower
Pittsburgh, PA
Chairman and Director
Chairman and Trustee, Federated Investors, Federated Advisers, Federated Management, and Federated Research; Chairman and Director, Federated Research Corp.; Chairman, Passport Research, Ltd.; Director, AETna Life and Casualty Company; Chief Executive Officer and Director, Trustee, or Managing General Partner of the Funds. 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; 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, Federated Advisers, Federated Management, and Federated Research; President and Director, Federated Research Corp.; President, Passport Research, Ltd.; Trustee, Federated Administrative Services, Federated Services Company, and Federated Shareholder Services; 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; Professor of Medicine and Trustee,
University of Pittsburgh; Director of Corporate Health,
University of Pittsburgh Medical Center; Director, Trustee,
or Managing General Partner of the Funds.

Edward L. Flaherty, Jr.@
Two Gateway Center - Suite 674
Pittsburgh, PA
Director
Attorney-at-law; Partner, Henny, Koehuba, 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 and State Street Boston Corporation and
Trustee, Lahey Clinic Foundation, Inc.

Gregor F. Meyer
Two Gateway Center - Suite 674
Pittsburgh, PA
Director
Attorney-at-law; Partner, Henny, Koehuba, 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;
Director, Federated Research Corp.; Chairman and Director,
Federated Securities Corp.; President or Vice President of
some 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, Federated Research, Federated Research Corp.,
and Passport Research, Ltd.; Executive Vice President,
Treasurer, and Director, Federated Securities Corp.;

Trustee, Federated Services Company and Federated Shareholder Services; Chairman, Treasurer, and Trustee, Federated Administrative Services; 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; Vice President and Secretary, Federated Research Corp. and Passport Research, Ltd.; Trustee, Federated Services Company; Executive Vice President, Secretary, and Trustee, Federated Administrative Services; Secretary and Trustee, Federated Shareholder Services; Executive Vice President and Director, Federated Securities Corp.; Vice President and Secretary of the Funds.

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

@ Member of the Executive Committee. The Executive Committee of the Board of Directors handles the responsibilities of the Board of Directors between meetings of the Board.

The Funds

"The Funds" and "Funds" mean the following investment companies: American Leaders Fund, Inc.; Annuity Management Series; Arrow Funds; Automated Cash Management Trust; Automated Government Money Trust; California Municipal Cash Trust; Cash Trust Series II; Cash Trust Series, Inc.; DG Investor Series; Edward D. Jones & Co. Daily Passport Cash Trust; 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 Institutional 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; Insight Institutional Series, Inc.; Insurance Management Series; Intermediate Municipal Trust; International Series, Inc.; 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 Cash Trust; Managed Series Trust; The Medalist Funds: Money Market Management, Inc.; Money Market Obligations Trust; Money Market Trust; Municipal Securities Income Trust; New York Municipal Cash Trust; 111 Corcoran Funds; Peachtree Funds; The Planters Funds; Portage Funds; RIMCO Monument Funds; The Shawmut Funds; Short-Term Municipal Trust; 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; Trust for U.S. Treasury Obligations; World Investment Series, Inc.

Fund Ownership

Officers and Directors own less than 1% of each Fund's outstanding Shares.

As of December 13, 1994, the following shareholder of record owned 5% or more of the outstanding Class A Shares of the Fund: Merrill Lynch Pierce Fenner and Smith (as record owner holding shares for its clients), Jacksonville, Florida owned approximately 98,907 Shares (11.52%).

As of December 13, 1994, the following shareholder of record owned 5% or more of the outstanding Class C Shares of the Fund: Merrill Lynch Pierce Fenner and Smith (as record owner holding shares for its clients), Jacksonville, Florida owned approximately 14,897 Shares (15.85%).

Investment Advisory Services

Adviser to the Fund

The Fund's investment adviser is Federated Advisers. 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.

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 years ended October 31, 1994, and 1993, and the period from January 1, 1992 to October 31, 1992, the Fund's Adviser earned \$139,962, \$165,261, and \$105,850, 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 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

Federated Administrative Services, a subsidiary of Federated Investors, provides administrative personnel and services to the Fund for a fee as described in the prospectus. Prior to March 1, 1994, Federated Administrative Services, Inc., also a subsidiary of Federated Investors, served as the Fund's administrator. (For purposes of this Statement of Additional Information, Federated Administrative Services and Federated Administrative Services, Inc., may hereinafter collectively be referred to as, the "Administrators"). For the fiscal year ended October 31, 1994, the Administrators collectively earned \$213,197. For the fiscal year ended October 31, 1993, and the period from January 1, 1992 to October 31, 1992, Federated Administrative Services, Inc. earned \$240,157 and \$166,758, respectively, all of which were waived by the Adviser in an effort to limit Fund expenses. Dr. Henry J. Gailliot, an officer of Federated Advisers, the Adviser to the Fund, holds approximately 20% of the outstanding common stock and serves as a director of Commercial Data Services, Inc., a company which provides computer processing services to Federated Administrative Services.

Transfer Agent and Dividend Disbursing Agent

Federated Services Company serves as transfer agent and dividend disbursing agent for the Fund. The fee is based on the size, type, and number of accounts and transactions made by shareholders.

Federated Services Company also maintains the Corporation's accounting records. The fee paid for this service is based

on the level of the Fund's average net assets for the period plus out-of-pocket expenses.

Brokerage Transactions

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:

- o advice as to the advisability of investing in securities;
- o security analysis and reports;
- o economic studies;
- o industry studies;
- o receipt of quotations for portfolio evaluations; and
- o 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 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 the 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 years ended October 31, 1994, and 1993, and the period from January 1, 1992 to October 31, 1992, the Fund paid \$39,729, \$44,421, and \$39,310, respectively, in brokerage commissions on brokerage transactions. As of October 31, 1994, the Fund owned \$491,000 of securities of Travelers, Inc., one of its regular brokers/dealers that derives more than 15% of gross revenues from securities-related activities.

Purchasing Shares

Shares are sold at their net asset value (plus a sales load on 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 Class A Shares" or "Investing in Class C Shares".

Distribution and Shareholder Services Plans

These arrangements permit the payment of fees to financial institutions, the distributor, and Federated Shareholder Services, to stimulate distribution activities and to cause services to be provided to shareholders by a representative who has knowledge of the shareholder's particular circumstances and goals. These activities and services may include, but are not limited to, marketing efforts; providing office space, equipment, telephone facilities, and various clerical, supervisory, computer, and other personnel 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; and assisting clients in changing dividend options, account designations, and addresses.

By adopting the Distribution Plan, the Directors expect that the Fund will be able to achieve a more predictable flow of cash for investment purposes and to meet redemptions. This will facilitate more efficient portfolio management and assist the Fund in pursuing its investment objectives. By identifying potential investors whose needs are served by the Fund's objectives, and properly servicing these accounts, it may be possible to curb sharp fluctuations in rates of redemptions and sales.

Other benefits, which may be realized under either arrangement, may include: (1) providing personal services to shareholders; (2) investing shareholder assets with a minimum of delay and administrative detail; (3) enhancing shareholder record keeping systems; and (4) responding promptly to shareholders' requests and inquiries concerning their accounts.

For the fiscal years ended October 31, 1994, and 1993, and the period from January 1, 1992 to October 31, 1992, payments in the amount of \$32,402, \$26,209, and \$5,229, respectively, were made pursuant to the Distribution Plan. In addition, for the fiscal year ended October 31, 1994,

payments in the amount of \$8,773, were made pursuant to the Shareholder Services Plan.

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 load or contingent deferred sales charge. Shares may also be sold without a sales load 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 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 respective prospectuses.

Determining Market Value of Securities

Market values of the Fund's portfolio securities, other than options, are determined as follows:

- o according to the last sale price on a national securities exchange, if available;

- o 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;

- o for unlisted equity securities, the latest bid prices;

- o 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 remaining maturities of 60 days or less at the time of purchase, at amortized cost unless the Board determines this is not fair value; or

- o 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.

Redeeming Shares

Shares of the Fund are redeemed at the next computed net asset value after the transfer agent receives the redemption request. Shareholder redemptions may be subject to a contingent deferred sales charge. Redemption procedures are explained in the respective prospectuses under "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:

- o derive at least 90% of its gross income from dividends, interest, and gains from the sale of securities;

- o derive less than 30% of its gross income from the sale of securities held less than three months;

- o invest in securities within certain statutory limits; and

- o 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.

Total Return

The average annual total return for both 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 (Class A Shares only), adjusted over the period by any additional Shares, assuming the quarterly reinvestment of all dividends and distributions. Any applicable contingent deferred sales charge will be deducted from the ending value of the investment based on the lesser of the offering price per Share at the time of purchase or the offering price per Share at the time of redemption.

The Fund's average annual total returns for the fiscal year ended October 31, 1994, were (13.48%) and (9.79%) for Class A Shares and Class C Shares, respectively. The average annual total return for the period from January 16, 1992 (effective date of Class A Shares registration statement) to October 31, 1994, and for the period from April 13, 1993 (effective date of Class C Shares registration statement) to October 31, 1994, were (1.69%), and (1.15%) for 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 SEC) 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 SEC 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, 1994, were 1.44% and 0.82% for Class A Shares and Class C Shares, respectively.

Performance Comparisons

The Fund's performance of each class of Shares depends upon such variables as:

- oportfolio quality;
- oaverage portfolio maturity;
- otype of instruments in which the portfolio is invested;
- ochanges in interest rates and market value of portfolio securities;
- ochanges in the Fund's or a class of Shares' expenses;
- and
- ovarious 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. Investors may use financial publications and/or indices to obtain a more complete view of the Fund's performance. When comparing performance, investors should consider all relevant factors such as the composition of any index used, prevailing market conditions, portfolio compositions of other funds, and methods used to value portfolio securities and compute offering price. The financial publications and/or indices which the Fund uses in advertising may include:

- oLipper 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 offering price 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.

oDow 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.

oStandard & 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.

oMorningstar, 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 weeks.

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 Ratings Group Commercial Paper Ratings
A-1-This highest category indicates that the degree of safety regarding timely payment is strong. Those issues determined to possess extremely strong safety characteristics are denoted with a plus (+) sign designation.

A-2-Capacity for timely payment on issues with this designation is satisfactory. However, the relative degree of safety is not as high 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: leading market positions in well established industries; high rates of return on funds employed; 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; and 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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Fortress Bond Fund

(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, 1994. 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, 1994

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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:

- odestically-issued corporate debt obligations;
- oasset-backed securities;
- obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities; and
- orepurchase 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.

In the fixed income securities market, price generally moves inversely to interest rates. Thus, a rise in rates generally means a drop in price. Conversely, a drop in rates generally 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.

"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 adviser, Federated Advisers (the "Adviser"), 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 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 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 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 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 made to secure what is considered to be an advantageous price or yield for the Fund. 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 on the Fund's records at the trade date. These assets are marked to market daily and are maintained until the transaction has been settled. 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 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 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 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 years ended October 31, 1994, and 1993, the portfolio turnover rates were 74% and 51%, 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 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.

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, 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.

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 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.

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.

For purposes of its limitations, 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 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.

Investment Series Funds, Inc. Management
Officers and Directors are listed with their addresses, present positions with Investment Series Funds, Inc., and principal occupations.

John F. Donahue@*
Federated Investors Tower
Pittsburgh, PA
Chairman and Director
Chairman and Trustee, Federated Investors, Federated Advisers, Federated Management, and Federated Research; Chairman and Director, Federated Research Corp.; Chairman, Passport Research, Ltd.; Director, AETna Life and Casualty Company; Chief Executive Officer and Director, Trustee, or Managing General Partner of the Funds. 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; 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, Federated Advisers, Federated Management, and Federated Research;

President and Director, Federated Research Corp.; President, Passport Research, Ltd.; Trustee, Federated Administrative Services, Federated Services Company, and Federated Shareholder Services; 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; Professor of Medicine and Trustee, University of Pittsburgh; Director of Corporate Health, University of Pittsburgh Medical Center; Director, Trustee, or Managing General Partner of the Funds.

Edward L. Flaherty, Jr.
Two Gateway Center - Suite 674
Pittsburgh, PA
Director
Attorney-at-law; Partner, Henny, Koehuba, 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 and State Street Boston Corporation and Trustee, Lahey Clinic Foundation, Inc.

Gregor F. Meyer
Two Gateway Center - Suite 674
Pittsburgh, PA
Director
Attorney-at-law; Partner, Henny, Koehuba, 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;
Director, Federated Research Corp.; Chairman and Director,
Federated Securities Corp.; President or Vice President of
some 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, Federated Research, Federated Research Corp.,
and Passport Research, Ltd.; Executive Vice President,
Treasurer, and Director, Federated Securities Corp.;
Trustee, Federated Services Company and Federated
Shareholder Services; Chairman, Treasurer, and Trustee,
Federated Administrative Services; 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; Vice President and Secretary, Federated Research
Corp. and Passport Research, Ltd.; Trustee, Federated
Services Company; Executive Vice President, Secretary, and
Trustee, Federated Administrative Services; Secretary and
Trustee, Federated Shareholder Services; Executive Vice
President and Director, Federated Securities Corp.; Vice
President and Secretary of the Funds.

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

@ Member of the Executive Committee. The Executive
Committee of the Board of Directors handles the
responsibilities of the Board of Directors between
meetings of the Board.

The Funds

"The Funds" and "Funds" mean the following investment
companies: American Leaders Fund, Inc.; Annuity Management
Series; Arrow Funds; Automated Cash Management Trust;
Automated Government Money Trust; California Municipal Cash
Trust; Cash Trust Series II; Cash Trust Series, Inc.; DG
Investor Series; Edward D. Jones & Co. Daily Passport Cash
Trust; 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 Institutional 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; Insight Institutional Series, Inc.; Insurance
Management Series; Intermediate Municipal Trust;
International Series, Inc.; 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 Cash Trust; Managed Series Trust; The
Medalist Funds: Money Market Management, Inc.; Money Market
Obligations Trust; Money Market Trust; Municipal Securities

Income Trust; New York Municipal Cash Trust; 111 Corcoran Funds; Peachtree Funds; The Planters Funds; Portage Funds; RIMCO Monument Funds; The Shawmut Funds; Short-Term Municipal Trust; 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; Trust for U.S. Treasury Obligations; World Investment Series, Inc.

Fund Ownership

Officers and Directors own less than 1% of each Fund's outstanding shares.

As of December 13, 1994, the following shareholder of record owned 5% or more of the outstanding shares of the Fund:

Merrill Lynch Pierce Fenner and Smith (as record owner holding shares for its clients), Jacksonville, Florida owned approximately 4,589,529 shares (29.05%).

Investment Advisory Services

Adviser to the Fund

The Fund's investment adviser is Federated Advisers. 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.

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 years ended October 31, 1994, and 1993, and the period from January 1, 1992 to October 31, 1992, the Adviser earned \$1,081,066, \$671,751 and \$113,009, respectively, of which \$481,690, \$548,973, and \$113,009 were voluntarily waived because of undertakings to limit the Fund's expenses. In addition, for the fiscal year ended October 31, 1994, and 1993, and for the period from January 1, 1992 to October 31, 1992, the Adviser voluntarily reimbursed, with respect to this Fund, \$0, \$0, and \$200,470, respectively.

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 Services

Federated Administrative Services, a subsidiary of Federated Investors, provides administrative personnel and services to the Fund for a fee as described in the prospectus. Prior to March 1, 1994, Federated Administrative Services, Inc., also a subsidiary of Federated Investors, served as the Fund's administrator. (For purposes of this Statement of Additional Information, Federated Administrative Services and Federated Administrative Services, Inc., may hereinafter collectively be referred to as, the "Administrators"). For the fiscal

year ended October 31, 1994, the Administrators collectively earned \$192,379. For the fiscal year ended October 31, 1993, and the period from January 1, 1992 to October 31, 1992, Federated Administrative Services, Inc. earned \$288,504 and \$131,503, respectively. Dr. Henry J. Gailliot, an officer of Federated Advisers, the Adviser to the Fund, holds approximately 20% of the outstanding common stock and serves as a director of Commercial Data Services, Inc., a company which provides computer processing services to Federated Administrative Services.

Transfer Agent and Dividend Disbursing Agent

Federated Services Company serves as transfer agent and dividend disbursing agent for the Fund. The fee is based on the size, type, and number of accounts and transactions made by shareholders.

Federated Services Company also maintains the Corporation's accounting records. The fee paid for this service is based on the level of the Fund's average net assets for the period plus out-of-pocket expenses.

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 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:

- o advice as to the advisability of investing in securities;
- o security analysis and reports;
- o economic studies;
- o industry studies;
- o receipt of quotations for portfolio evaluations; and
- o 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 the 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 load 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."

Shareholder Services Plan

This arrangement permits the payment of fees to Federated Shareholder Services and, indirectly, to financial institutions to cause services to be provided to shareholders by a representative who has knowledge of the shareholder's particular circumstances and goals. These activities and services may include, but are not limited to, providing office space, equipment, telephone facilities, and various clerical, supervisory, computer, and other personnel 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; and assisting clients in changing dividend options, account designations, and addresses.

For the fiscal year ended October 31, 1994, payments in the amount of \$350,007, were made pursuant to the Shareholder Services Plan.

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 load. Shares may also be sold without a sales load 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.

Other Payments to Financial Institutions

The administrative services for which the Distributor will pay financial institutions include, but are not limited to, providing office space, equipment, telephone facilities, and various clerical, supervisory and computer personnel, 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, addresses, and providing such other services as the Fund may reasonably request.

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:

- oaccording to the last sale price on a national securities exchange, if available;
- oin 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;
- ofor short-term obligations, according to the mean bid and asked prices, as furnished by an independent pricing service, or for short-term obligations with remaining maturities of less than 60 days at the time of purchase, at amortized cost unless the Board determines this is not fair value; or
- oat 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:

- oyield;
- oquality;
- ocoupon rate;
- omaturity;
- otype of issue;
- otrading characteristics; and
- oother 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, less any applicable contingent deferred sales charge, after the transfer agent receives the redemption request. Redemption procedures are explained in the prospectus under "Redeeming Shares." Although the transfer agent 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 (the "SEC") has issued an order exempting the Corporation from certain provisions of the Investment Company Act of 1940, as amended. 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 load that differs from that of the Fund's or which impose no sales load so long as the Federated Funds 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 load already paid and any sales load 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 load, to exchange their shares for Fund shares on a basis other than their current offering price. These 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 load.

Reduced Sales Load

If a shareholder making such an exchange qualifies for a reduction or elimination of the sales load, the shareholder must notify Federated Securities Corp. or Federated Services Company in writing.

Requirements for Exchange

Shareholders using this privilege must exchange shares having a net asset value equal to the minimum investment requirements of the fund into which the exchange is being made. 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 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:

- o derive at least 90% of its gross income from dividends, interest, and gains from the sale of securities;
- o derive less than 30% of its gross income from the sale of securities held less than three months;
- o invest in securities within certain statutory limits;
- o and
- o 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, 1994, and for the period from July 8, 1988 (effective date of the Fund's registration statement) to October 31, 1994, were (5.28%), 10.69%, and 9.29%, 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 contingent deferred sales charge 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, 1994, was 8.69%.

The yield for the Fund is determined each day by dividing the net investment income per share (as defined by the SEC) 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 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 SEC 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:

- o portfolio quality;
- o average portfolio maturity;
- o type of instruments in which the portfolio is invested;
- o changes in interest rates and market value of portfolio securities;
- o changes in Fund's expenses; and
- o 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.

Investors may use financial publications and/or indices to obtain a more complete view of the Fund's performance. When comparing performance, investors should consider all relevant factors such as the composition of any index used, prevailing market conditions, portfolio compositions of other funds, and methods used to value portfolio securities and compute offering price. The financial publications and/or indices which the Fund uses in advertising may include:

- o Lehman Brothers 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 Lehman Brothers, Inc., the index calculates total returns for one-month, three-month, twelve-month, and ten-year periods and year-to-date.

- o 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.

oMerrill 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 Ratings Group and Moody's Investors Service, Inc. Only notes and bonds with a minimum maturity of one year are included.

oMerrill 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.

oLipper 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 offering price over a specific period of time. From time to time, the Fund will quote its Lipper ranking in advertising and sales literature.

oThe 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 Ratings Group or, in the case of bank bonds not rated by either of the previously mentioned services, BBB by Fitch Investors Service, Inc.

oMorningstar, 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 weeks.

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

Standard and Poor's Ratings Group Commercial Paper Ratings

A-1-This highest category indicates that the degree of safety regarding timely payment is strong. Those issues determined to possess extremely strong safety characteristics are denoted with a plus (+) sign designation.

A-2-Capacity for timely payment on issues with this designation is satisfactory. However, the relative degree of safety is not as high 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: leading market positions in well established industries; high rates of return on funds employed; 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; and 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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APPENDIX

A. The graphic presentation here displayed consists of the components of a line graph. The 12 month moving average of the Russell Growth Index versus the Russell Value Index (the "Indices") is represented by a bold solid line. The "y" axis reflects the relative performance of the Indices. If the average is greater than zero, growth outperforms; if the average is less than zero, value outperforms. The "x" axis reflects computation periods from 12/79 through 6/94.

B. The graphic presentation here displayed consists of the components of a line graph. Capital Growth Fund - Class A Shares (the "Fund") is represented by a bold solid line. The Lipper Growth Fund Index ("LGFI") is represented by a bold broken line and the Standard and Poor's 500 Index ("S&P 500") is represented by a dotted line. The "y" axis reflects the cost of the investment. The "x" axis reflects computation periods from the Fund's start of performance, 1/17/92 through 10/31/94. The right margin reflects the ending value of the hypothetical investment in the Fund as compared to LGFI and S&P 500; the ending values were \$9,538, \$12,492, and \$12,484, respectively. The Average Annual Total Return for the period ended October 31, 1994; beginning with the start of performance date of the Fund, 1/17/92, and the one-year period was -1.69% and -13.48%, respectively.

C. The graphic presentation here displayed consists of the components of a line graph. Capital Growth Fund - Class C Shares (the "Fund") is represented by a bold solid line. The Lipper Growth Fund Index ("LGFI") is represented by a bold broken line and the Standard and Poor's 500 Index ("S&P 500") is represented by a dotted line. The "y" axis reflects the cost of the investment. The "x" axis reflects computation periods from the Fund's start of performance, 4/14/93 through 10/31/94. The right margin reflects the ending value of the hypothetical investment in the Fund as compared to LGFI and S&P 500; the ending values were \$9,823, \$11,125, and \$10,903, respectively. The Average Annual Total Return for the period ended October 31, 1994; beginning with the start of performance date of the Fund, 1/17/92, and the one-year period was -1.15% and -9.79%, respectively.

D. The graphic presentation here displayed consists of the components of a line graph. Fortress Bond Fund (the "Fund") is represented by a bold broken line. The Lehman Brothers Corporate Bond Index ("LBCBI") is represented by a bold solid line and the Lipper Corporate Debt Funds BBB Rated Average ("LCDBBB") is represented by a dotted line. The "y" axis reflects the cost of the investment. The "x" axis reflects computation periods from the Fund's start of performance, 5/20/87 through 10/31/94. The right margin reflects the ending value of the hypothetical investment in the Fund as compared to LBCBI and LCDBBB; the ending values were \$19,002, \$19,122, and \$17,836, respectively. The Average Annual Total Return for the period ended October 31, 1994; beginning with the start of performance date of the Fund, 5/20/87, and the one-year and five-year periods was 9.29%, -5.28%, and 10.69%, respectively.