

SECURITIES AND EXCHANGE COMMISSION

FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

Filing Date: **1995-07-28** | Period of Report: **1995-05-31**
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FILER

FIXED INCOME SECURITIES INC

CIK: **879569** | State of Incorporation: **MD** | Fiscal Year End: **1130**
Type: **N-30D** | Act: **40** | File No.: **811-06447** | Film No.: **95557112**

Mailing Address
*FEDERATED INVESTORS
TOWER
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[LOGO] FEDERATED INVESTORS

Limited
Term
Fund

Semi-Annual Report
May 31, 1995

Established 1993

FIXED INCOME

President's Message

[PHOTO]

Dear Shareholder:

Limited Term Fund was established in 1993, and I am pleased to present the 1995 Semi-Annual Report to shareholders.

This report features an investment review by the fund's portfolio manager, Deborah A. Cunningham, Vice President of Federated Advisers, followed by the fund's Portfolio of Investments and Financial Highlights.

On May 31, 1995, the fund's net assets totaled \$162.6 million, and the fund paid monthly dividends during the six-month period totaling \$0.27 per share for Class A Shares and \$0.27 per share for Fortress Shares. The 30-day yields for Class A Shares and Fortress Shares as of May 31, 1995 were 6.14% and 6.24%, respectively.

The fund puts your money to work pursuing a high level of current income consistent with the minimal fluctuations in share value. The fund invests in a diversified portfolio of short-term bonds with 2 to 3 year maturities. At least 65% of the fund's assets are invested in issues rated "A"* or better by one or more nationally recognized statistical rating organizations. All notes and bonds in the fund's portfolio must meet or exceed industry standards for "investment grade", which means a BBB or better rating.

The fund's total returns for the six-month period were 5.71% for Class A Shares and 4.80% for Fortress Shares, up significantly from our last report in November, 1994.**

Thank you for choosing Limited Term Fund as a way to pursue competitive monthly income. We appreciate your continued support and welcome your comments or questions.

Sincerely yours,

/s/ RICHARD B. FISHER

Richard B. Fisher
President
July 14, 1995

* RATINGS ARE ACCORDING TO STANDARD & POOR'S RATINGS GROUP AND ARE SUBJECT TO CHANGE.

** PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, THEREFORE AN INVESTORS SHARES WHEN REDEEMED MAY BE WORTH MORE OR LESS THAN THE ORIGINAL COST.

Investment Review

[PHOTO]

DEBORAH A. CUNNINGHAM
VICE PRESIDENT,
FEDERATED ADVISERS

The investment objective of the fund is to seek a high level of current income consistent with minimum fluctuation in principal value through a portfolio with an effective modified duration of three years or less.

The fund invests its assets primarily in a broad range of investment grade securities rated BBB* or better. These include fixed and floating rate

corporate bonds, asset-backed securities, and U.S. government backed securities that are guaranteed as to the timely payment of principal and interest by the U.S. government, its agencies or its instrumentalities.

The long anticipated slowdown in the economy finally came in early 1995 bringing with it the perception that The Federal Reserve Board (the "Fed") had achieved a "soft landing." Housing starts and auto sales have noticeably softened. Retail sales tumbled; capacity utilization is back down below 85%; concurrently, inflation has begun to stir, but remains remarkably constrained.

During the past six months, yields declined about 150 basis points in the two to three year sector of the investment-grade bond market. The Fed has increased the Fed Funds Rate once from 5.50 percent to 6.00 percent in February, 1995.

The Two-Year U.S. Treasury Note began the period with a yield of 7.40 percent and increased to 7.74 percent on December 23, 1994, before decreasing precipitously to end the period at 5.87 percent on May 31, 1995. Drastic yield curve flattening occurred with the spread over the One-Year U.S. Treasury bill decreasing from 49 to 9 basis points. Given this flattening, the target duration for the fund has increased slightly to the 2.25-year area. In meeting this target the fund continues to hold a 30 to 40 percent position in floating rate securities.

The total returns for Class A shares and Fortress shares for the six-month period ending May 31, 1995, was 5.71% and 4.80%, respectively.** The net asset value of both the Class A Shares and the Fortress Shares have increased from \$9.48 to \$9.85 over the period. The net assets of the fund decreased from \$192.2 to \$162.6 million. The 30-day net distribution yield decreased from 5.55% to 5.46% for Class A Shares, and decreased 5.66% to 5.56% for Fortress Shares. The effective modified duration of the fund on May 31, 1995 was 2.0 years and will be maintained between 2.0 and 2.5 years.

* RATINGS ARE ACCORDING TO STANDARD AND POOR'S RATINGS GROUP AND ARE SUBJECT TO CHANGE.

** PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, THEREFORE AN INVESTORS SHARES WHEN REDEEMED MAY BE WORTH MORE OR LESS THAN THE ORIGINAL COST.

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LIMITED TERM FUND--
PORTFOLIO UPDATE

PLEASE SEE APPENDIX A

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LIMITED TERM FUND
PORTFOLIO OF INVESTMENTS
MAY 31, 1995 (UNAUDITED)

<TABLE>
<CAPTION>

| PRINCIPAL AMOUNT | | VALUE |
|--|--|--------------|
| <C> | <S> | <C> |
| CORPORATE BONDS/ASSET BACKED SECURITIES--70.8% | | |
| ----- | | |
| | AUTOMOTIVE--12.4% | |
| | ----- | |
| \$ 1,625,940 | Capital Auto Receivables Asset Trust 1993-1, Class B, 5.85%, 2/17/98 | \$ 1,615,209 |
| | ----- | |
| 8,000,000 | Ford Credit Auto Loan Master Trust 1992-1, 6.88%, 1/15/1999 | 8,080,960 |
| | ----- | |
| 2,000,000 | General Motors Acceptance Corp., MTN, 7.63%, 3/9/1998 | 2,047,420 |
| | ----- | |
| 2,550,000 | (a) Navistar Financial Dealer Note 1990, Class A-3, 6.98%, 1/25/2003 | 2,579,351 |
| | ----- | |
| 3,677,601 | Navistar Financial Owner Trust 1994-B, Class B, 6.63%, 1/15/2000 | 3,684,497 |
| | ----- | |
| 2,000,000 | Navistar Financial Owner Trust 1995-1, Class B, | |

| | | |
|-------------------------|--|------------|
| | 6.85%, 11/20/2001 | 2,010,920 |
| 55,748 | Select Auto Receivables Trust 1991-5, Class A, 6.25%, 11/15/1996 | 55,603 |
| | Total | 20,073,960 |
| BANKING--18.8% | | |
| 7,000,000 | (a) Chase Manhattan Corp. FRN, 6.44%, 12/05/2009 | 6,755,000 |
| 5,000,000 | (a) Chemical Bank, FRN, 6.25%, 7/29/2003 | 4,864,500 |
| 3,615,000 | (a) Citicorp, EFRN 6.69%, 6/29/2005 | 3,443,288 |
| 5,000,000 | MBNA Master Credit Card Trust 1991-1, Class A, 7.75%, 10/15/1998 | 5,126,450 |
| 2,000,000 | PNC Bank Sub. Note, 7.88%, 4/15/2005 | 2,104,160 |
| 2,000,000 | Standard Credit Card Master Trust 1991-1, Class A, 8.50%, 8/7/1997 | 2,037,260 |
| 6,000,000 | Toronto-Dominion Bank, Sub. Note, 7.88%, 8/15/2004 | 6,286,200 |
| | Total | 30,616,858 |
| CONSUMER PRODUCTS--1.5% | | |
| 1,479,217 | (b) Encyclopedia Britannica Dom. Funding Corp., Series 1994-1, 6.76%, 3/15/2000 | 1,480,604 |
| 856,697 | (a) John Deere Owner Trust 1992-1, Class E, 7.25%, 12/29/1999 | 861,392 |
| | Total | 2,341,996 |
| FINANCE--RETAIL--5.0% | | |
| 3,000,000 | Discover Credit Card Trust 1991-B, Class B, 8.85%, 7/15/1998 | 3,082,950 |

</TABLE>

4

LIMITED TERM FUND

<TABLE>

<CAPTION>

| PRINCIPAL AMOUNT | | VALUE |
|--|---|--------------|
| CORPORATE BONDS/ASSET BACKED SECURITIES--CONTINUED | | |
| FINANCE--RETAIL--CONTINUED | | |
| \$ 5,000,000 | Household Private Label Credit Card 1994-1, Class B, 7.55%, 5/20/1997 | \$ 5,086,719 |
| | Total | 8,169,669 |
| HOME EQUITY RECEIVABLES--20.5% | | |
| 1,263,472 | AFC Home Equity Loan Trust 1992-3, Class A, 7.05%, 8/15/2007 | 1,266,100 |
| 745,010 | Advanta Home Equity Loan Trust 1991-1, Class A, 9.00%, 2/25/2006 | 781,508 |
| 2,000,016 | Advanta Home Equity Loan Trust 1992-4, Class A-2, 7.15%, 12/25/2008 | 1,983,295 |
| 1,500,000 | (a) Capitol Home Equity Loan Trust 1991-1, Class B, 6.73%, 12/25/2011 | 1,514,250 |
| 4,303,879 | (b) Conti Mortgage Home Equity Loan Trust 1993-3, Class A-2, 5.54%, 7/15/2020 | 4,009,794 |
| 2,000,000 | (b) Conti Mortgage Home Equity Loan Trust 1994-1, Class A-3, 6.07%, 11/15/2013 | 1,892,810 |
| 4,186,621 | (b) Conti Mortgage Home Equity Loan Trust 1994-1, | |

| | | |
|-----------|--|------------|
| | Class A-5, 6.12%, 1/15/2024 | 3,982,711 |
| 633,008 | Fleet Finance Home Equity Trust 1991-2, 6.70%, 10/15/2006 | 633,812 |
| 4,293,537 | (a) Merrill Lynch Home Equity Loan Trust 1991-2, Class B, 7.00%, 4/15/2006 | 4,317,582 |
| 2,309,787 | (a) Merrill Lynch Home Equity Loan Trust 1993-1, Class B, 7.06%, 2/15/2003 | 2,328,912 |
| 3,914,677 | TMS Home Equity Loan Trust 1993-C, Class A-3, 5.75%, 10/15/2022 | 3,703,989 |
| 1,448,704 | TMS Home Equity Loan Trust 1992-A, Class A, 6.95%, 12/15/2007 | 1,440,142 |
| 825,963 | TMS Home Equity Loan Trust 1992-B, Class A, 6.90%, 7/15/2007 | 819,958 |
| 4,658,279 | TMS Home Equity Loan Trust 1992-D, Class A-3, 7.55%, 1/15/2018 | 4,687,393 |
| | Total | 33,362,256 |
| | INSURANCE--3.2% | |
| 5,000,000 | USF&G Corp., Sr. Note, 8.38%, 6/15/2001 | 5,236,000 |

</TABLE>

5

LIMITED TERM FUND

| <TABLE> | | |
|--|---|-------------|
| <CAPTION> | | |
| PRINCIPAL AMOUNT | | VALUE |
| <C> | <S> | <C> |
| CORPORATE BONDS/ASSET BACKED SECURITIES--CONTINUED | | |
| | LEASING--0.2% | |
| \$ 269,003 | (b) Concord Leasing Grantor Trust 1992-C, Class A-1, 5.31%, 1/20/1999 | \$ 264,263 |
| | MANUFACTURED HOUSING RECEIVABLES--3.1% | |
| 5,386,618 | CIT Group Manufactured Housing PTC 1993-1, Class B, 6.85%, 6/15/2018 | 5,074,626 |
| | MARINE RECEIVABLES--2.3% | |
| 3,785,282 | CBNJ Boat Loan Trust, Series 1994-1, 6.89%, 4/27/2012 | 3,775,819 |
| | PUBLISHING--3.8% | |
| 6,000,000 | News America Holdings, Inc., 7.50%, 3/1/2000 | 6,141,960 |
| | TOTAL CORPORATE BONDS/ASSET BACKED SECURITIES (IDENTIFIED COST \$114,317,135) | 115,057,407 |
| GOVERNMENT AGENCIES--2.8% | | |
| 2,500,000 | Federal Farm Credit Banks, 6.96%, 6/6/2000 | 2,500,000 |
| 2,000,000 | Federal Home Loan Mortgage Corp., 7.84%, 4/26/2000 | 2,028,580 |
| | TOTAL GOVERNMENT AGENCIES (IDENTIFIED COST \$4,515,526) | 4,528,580 |
| MORTGAGE-BACKED SECURITIES--24.5% | | |
| | GOVERNMENT AGENCY--MORTGAGE-BACKED SECURITIES--2.2% | |
| 236,310 | Federal Home Loan Mortgage Corp. Series 1132, Class G, 8.00%, 1/15/2005 | 237,643 |
| 1,240,677 | (a) Federal Home Loan Mortgage Corp., Pool 606116, 7.32%, 9/1/2019 | 1,279,101 |

| | | |
|--|--|-----------|
| 1,364,849 | (a) Federal Home Loan Mortgage Corp., Pool 785167, 7.11%, 12/1/2018 | 1,406,709 |
| 384,391 | (a) Federal National Mortgage Association Pool 112514, 7.65%, 12/1/2020 | 400,804 |
| 181,975 | (a) Federal National Mortgage Association Pool 087462, 7.72%, 11/1/2017 | 190,577 |
| | Total | 3,514,834 |
| NON-GOVERNMENT AGENCY--MORTGAGE-BACKED SECURITIES--22.3% | | |
| 4,182,740 | (a) Citicorp Mortgage Securities, Inc., Series 1992-18, Class A-1, 7.14%, 10/25/2022 | 4,250,709 |
| 7,000,000 | Citicorp Mortgage Securities, Inc., Series 1993-12, Class A-2, 6.50%, 6/25/2021 | 6,503,070 |

</TABLE>

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LIMITED TERM FUND

<TABLE>

<CAPTION>

| PRINCIPAL AMOUNT | | VALUE |
|--|---|---------------|
| <C> | <S> | <C> |
| MORTGAGE-BACKED SECURITIES--CONTINUED | | |
| NON-GOVERNMENT AGENCY--MORTGAGE-BACKED SECURITIES--CONTINUED | | |
| \$ 6,712,231 | (a) GCA REMIC Trust V, 1993-5, Class B, 6.76%, 5/1/2020 | \$ 6,225,594 |
| 2,950,000 | Prudential Home Mortgage 1992-32, Class A-6, 7.50%, 10/25/2022 | 2,917,274 |
| 3,270,000 | RTC 1992-15, Class B-3, 10.00%, 7/25/2027 | 3,390,581 |
| 3,501,446 | (a) Residential Funding Securities, Inc., Series 1993-S38, Class A, 6.88%, 9/25/2023 | 3,581,322 |
| 6,065,158 | Salomon Brothers Mortgage Securities, Series 1993-9, Class A-1, 7.24%, 1/25/2024 | 6,034,832 |
| 3,208,822 | (a) Salomon Brothers Mortgage Securities VII, Series 1992-6, Class A-1, 7.19%, 11/25/2022 | 3,344,194 |
| | Total | 36,247,576 |
| | TOTAL MORTGAGE-BACKED SECURITIES (IDENTIFIED COST \$38,518,772) | 39,762,410 |
| (C) REPURCHASE AGREEMENT--2.2% | | |
| 3,511,000 | J.P. Morgan Securities, Inc. 6.17%, dated 5/31/1995, due 6/1/1995 (at amortized cost) | 3,511,000 |
| | TOTAL INVESTMENTS (IDENTIFIED COST \$160,862,433) (D) | \$162,859,397 |

<FN>

- (a) Denotes Variable Rate and Floating Rate securities which show current rate.
 (b) Indicates private placement securities held at May 31, 1995 with a total market value of \$11,630,182 which represents 7.2% of total net assets.
 (c) The repurchase agreement is fully collateralized by U.S. government and/or agency obligations based on market prices at the date of the portfolio. The investment in the repurchase agreement is through participation in a joint account with other Federated funds.
 (d) The cost of investments for federal tax purposes amounts to \$160,862,433. The net unrealized appreciation of investments on a federal tax basis amounts to \$1,996,964 which is comprised of \$3,838,582 appreciation and \$1,841,618 depreciation at May 31, 1995.

Note: The categories of investments are shown as a percentage of net assets (\$162,596,925) at May 31, 1995.

</TABLE>

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LIMITED TERM FUND

The following acronyms are used throughout this portfolio:

<TABLE>
<S> <C>
EFRN --Euro Floating Rate Note
FRN --Floating Rate Note
MTN --Medium Term Note
PTC --Pass Through Certificate
REMIC --Real Estate Mortgage Investment Conduit
</TABLE>

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

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LIMITED TERM FUND
STATEMENT OF ASSETS AND LIABILITIES
MAY 31, 1995 (UNAUDITED)

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

Investments in securities, at value (identified and tax cost \$160,862,433) \$162,859,397

Cash 1,867

Receivable for investments sold 1,789,399

Income receivable 1,780,059

Receivable for shares sold 35,516

Deferred expenses 84,621

Total assets 166,550,859

LIABILITIES:

Payable for investments purchased \$2,500,000

Payable for shares redeemed 1,013,704

Income distribution payable 263,586

Accrued expenses 176,644

Total liabilities 3,953,934

NET ASSETS for 16,510,453 shares outstanding \$162,596,925

NET ASSETS CONSISTS OF:

Paid in capital \$173,154,634

Net unrealized appreciation (depreciation) of investments 1,996,964

Accumulated net realized gain (loss) on investments (12,421,594)

Accumulated distributions in excess of net investment income (133,079)

Total Net Assets \$162,596,925

CLASS A SHARES:

Net Asset Value Per Share (\$151,674,425 DIVIDED BY 15,401,236 shares
outstanding) \$ 9.85

Offering Price Per Share (100/99.00 of \$9.85)* \$ 9.95

Redemption Proceeds Per Share \$ 9.85

FORTRESS SHARES:

| | | |
|--|----|------|
| Net Asset Value Per Share (\$10,922,500 DIVIDED BY 1,109,217 shares outstanding) | \$ | 9.85 |
| ----- | | |
| Offering Price Per Share (100/99.00 of \$9.85)* | \$ | 9.95 |
| ----- | | |
| Redemption Proceeds Per Share (99.00/100 of \$9.85)** | \$ | 9.75 |
| ----- | | |

</TABLE>

* See "What Shares Cost" in the Prospectus.

** See "Contingent Deferred Sales Charge" in the Prospectus.

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

9

LIMITED TERM FUND
STATEMENT OF OPERATIONS
SIX MONTHS ENDED MAY 31, 1995 (UNAUDITED)

<TABLE>

| <S> | <C> | <C> | <C> |
|---|-----------|-----------|--------------|
| INVESTMENT INCOME: | | | |
| ----- | | | |
| Interest | | | \$ 6,295,124 |
| ----- | | | |
| EXPENSES: | | | |
| ----- | | | |
| Investment advisory fee | \$ | 347,286 | |
| ----- | | | |
| Administrative personnel and services fee | | 77,288 | |
| ----- | | | |
| Custodian fees | | 18,597 | |
| ----- | | | |
| Transfer agent and dividend disbursing agent fees and expenses | | 87,658 | |
| ----- | | | |
| Directors'/Trustees' fees | | 3,734 | |
| ----- | | | |
| Auditing fees | | 8,190 | |
| ----- | | | |
| Legal fees | | 3,734 | |
| ----- | | | |
| Portfolio accounting fees | | 4,705 | |
| ----- | | | |
| Distribution services fee--Class A Shares | | 404,928 | |
| ----- | | | |
| Distribution services fee--Fortress Shares | | 8,754 | |
| ----- | | | |
| Shareholder services fee--Class A Shares | | 202,464 | |
| ----- | | | |
| Shareholder services fee--Fortress Shares | | 14,590 | |
| ----- | | | |
| Share registration costs | | 39,312 | |
| ----- | | | |
| Printing and postage | | 29,848 | |
| ----- | | | |
| Insurance premiums | | 4,368 | |
| ----- | | | |
| Taxes | | 14,924 | |
| ----- | | | |
| Miscellaneous | | 28,392 | |
| ----- | | | |
| Total expenses | | 1,298,772 | |
| ----- | | | |
| Deduct-- | | | |
| ----- | | | |
| Waiver of investment advisory fee | \$103,697 | | |
| ----- | | | |
| Waiver of distribution services fee--Class A Shares | 242,957 | | |
| ----- | | | |
| Waiver of distribution services fee--Fortress Shares | 2,334 | | |
| ----- | | | |
| Waiver of shareholder services fee--Fortress Shares | 584 | 349,572 | |
| ----- | | | |
| Net expenses | | | 949,200 |
| ----- | | | |
| Net investment income | | | 5,345,924 |
| ----- | | | |
| REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS: | | | |
| ----- | | | |
| Net realized gain (loss) on investments | | | (2,773,874) |
| ----- | | | |
| Net change in unrealized appreciation (depreciation) of investments | | | 8,614,730 |

| | |
|--|--------------|
| Net realized and unrealized gain (loss) on investments | 5,840,856 |
| Change in net assets resulting from operations | \$11,186,780 |

</TABLE>

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

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LIMITED TERM FUND
STATEMENT OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

| | SIX MONTHS ENDED MAY 31, 1995 (UNAUDITED) | YEAR ENDED NOVEMBER 30, 1994 |
|--|--|------------------------------------|
| <S> | <C> | <C> |
| INCREASE (DECREASE) IN NET ASSETS: | | |
| OPERATIONS-- | | |
| Net investment income | \$ 5,345,924 | \$ 13,252,956 |
| Net realized gain (loss) on investments (\$2,773,874 net loss and \$9,607,384 net loss, respectively, as computed for federal income tax purposes) | (2,773,874) | (9,647,720) |
| Net change in unrealized appreciation (depreciation) of investments | 8,614,730 | (6,903,560) |
| Change in assets resulting from operations | 11,186,780 | (3,298,324) |
| NET EQUALIZATION CREDITS (DEBITS) | (5,366) | 7,025 |
| DISTRIBUTIONS TO SHAREHOLDERS-- | | |
| Distributions from net investment income: | | |
| Class A Shares | (4,485,118) | (12,483,582) |
| Fortress Shares | (327,076) | (776,400) |
| Distributions in excess of net investment income: | | |
| Class A Shares | -- | (97,229) |
| Fortress Shares | -- | (4,798) |
| Distributions from net realized gains: | | |
| Class A Shares | -- | (356,098) |
| Fortress Shares | -- | (12,247) |
| Change in net assets resulting from distributions to shareholders | (4,812,194) | (13,730,354) |
| SHARE TRANSACTIONS-- | | |
| Proceeds from sale of Shares | 4,340,730 | 82,920,358 |
| Net asset value of Shares issued to shareholders in payment of distributions declared | 3,213,895 | 9,662,553 |
| Cost of Shares redeemed | (43,512,782) | (139,481,244) |
| Change in net assets resulting from share transactions | (35,958,157) | (46,898,333) |
| Change in net assets | (29,588,937) | (63,919,986) |
| NET ASSETS: | | |
| Beginning of period | 192,185,862 | 256,105,848 |
| End of period | \$162,596,925 | \$192,185,862 |

</TABLE>

LIMITED TERM FUND
FINANCIAL HIGHLIGHTS--CLASS A SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

| <S> | SIX MONTHS ENDED MAY 31, 1995 (UNAUDITED) | | YEAR ENDED NOVEMBER 30, | | |
|---|--|-----------|-------------------------|-----------|----------|
| | <C> | <C> | 1994 | 1993 | 1992 (a) |
| NET ASSET VALUE, BEGINNING OF PERIOD | \$ 9.48 | \$ 10.17 | \$ 10.00 | \$ 10.01 | |
| INCOME FROM INVESTMENT OPERATIONS | | | | | |
| Net investment income | 0.29 | 0.53 | 0.63 | 0.519 | |
| Net realized and unrealized gain (loss) on investments | 0.35 | (0.66) | 0.19 | (0.008) | |
| Total from investment operations | 0.64 | (0.13) | 0.82 | 0.511 | |
| LESS DISTRIBUTIONS | | | | | |
| Distributions from net investment income | (0.27) | (0.53) | (0.63) | (0.519) | |
| Distributions in excess of net investment income (b) | -- | (0.02) | (0.02) | (0.002) | |
| Distributions from net realized gain on investment transactions | -- | (0.01) | -- | -- | |
| Total distributions | (0.27) | (0.56) | (0.65) | (0.521) | |
| NET ASSET VALUE, END OF PERIOD | \$ 9.85 | \$ 9.48 | \$ 10.17 | \$ 10.00 | |
| TOTAL RETURN (c) | 6.83% | (1.30%) | 8.19% | 5.21% | |
| RATIOS TO AVERAGE NET ASSETS | | | | | |
| Expenses | 1.10% (d) | 1.10% | 1.01% | 0.67% (d) | |
| Net investment income | 6.15% (d) | 5.52% | 5.75% | 6.17% (d) | |
| Expense waiver/reimbursement (e) | 0.42% (d) | 0.39% | 0.49% | 1.06% (d) | |
| SUPPLEMENTAL DATA | | | | | |
| Net assets, end of period (000 omitted) | \$151,674 | \$178,771 | \$248,876 | \$57,225 | |
| Portfolio turnover | 33 % | 63 % | 38 % | 60 % | |

- <FN>
- (a) Reflects operations from January 13, 1992 (date of initial public investment) to November 30, 1992. For the period from the start of business, December 5, 1991, to January 12, 1992, the net investment income was distributed to the Fund's investment adviser.
- (b) 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.
- (c) Based on net asset value, which does not reflect the sales load or contingent deferred sales charge, if applicable.
- (d) Computed on an annualized basis.
- (e) This voluntary expense decrease is reflected in both the expense and net investment income ratios shown above.

</TABLE>

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

LIMITED TERM FUND
FINANCIAL HIGHLIGHTS--FORTRESS SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

<TABLE>

<CAPTION>

| | SIX MONTHS ENDED MAY 31, 1995 (UNAUDITED) | YEAR ENDED NOVEMBER 30, ----- 1994 1993 (a) | |
|---|--|--|-----------|
| <S> | <C> | <C> | <C> |
| NET ASSET VALUE, BEGINNING OF PERIOD | \$ 9.48 | \$ 10.17 | \$ 10.24 |
| ----- | | | |
| INCOME FROM INVESTMENT OPERATIONS | | | |
| ----- | | | |
| Net investment income | 0.30 | 0.55 | 0.15 |
| ----- | | | |
| Net realized and unrealized gain (loss) on investments | 0.34 | (0.67) | (0.07) |
| ----- | | | |
| Total from investment operations | 0.64 | (0.12) | 0.08 |
| ----- | | | |
| LESS DISTRIBUTIONS | | | |
| ----- | | | |
| Distributions from net investment income | (0.27) | (0.55) | (0.15) |
| ----- | | | |
| Distributions in excess of net investment income (b) | -- | (0.01) | -- |
| ----- | | | |
| Distributions from net realized gain on investment transactions | -- | (0.01) | -- |
| ----- | | | |
| Total distributions | (0.27) | (0.57) | (0.15) |
| ----- | | | |
| NET ASSET VALUE, END OF PERIOD | \$ 9.85 | \$ 9.48 | \$ 10.17 |
| ----- | | | |
| TOTAL RETURN (C) | 6.88% | (1.20%) | 0.78% |
| ----- | | | |
| RATIOS TO AVERAGE NET ASSETS | | | |
| ----- | | | |
| Expenses | 1.00% (d) | 0.99% | 1.00% (d) |
| ----- | | | |
| Net investment income | 6.24% (d) | 5.67% | 7.10% (d) |
| ----- | | | |
| Expense waiver/reimbursement (e) | 0.17% (d) | 0.13% | 0.39% (d) |
| ----- | | | |
| SUPPLEMENTAL DATA | | | |
| ----- | | | |
| Net assets, end of period (000 omitted) | \$10,923 | \$13,415 | \$7,230 |
| ----- | | | |
| Portfolio turnover | 33 % | 63 % | 38 % |
| ----- | | | |

<FN>

- (a) Reflects operations for the period from August 31, 1993 (date of initial public offering) to November 30, 1993.
- (b) 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.
- (c) Based on net asset value, which does not reflect the sales load or contingent deferred sales charge, if applicable.
- (d) Computed on an annualized basis.
- (e) This voluntary expense decrease is reflected in both the expense and net investment income ratios shown above.

</TABLE>

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

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LIMITED TERM FUND
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1995 (UNAUDITED)

(1) ORGANIZATION

Fixed Income Securities, 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 three, diversified portfolios. The financial statements included herein are only those of Limited Term Fund (the "Fund"). The financial statements of the other portfolios are presented separately. The assets of each portfolio are segregated and a shareholder's interest is limited to the portfolio in which shares are held. The Fund offers two classes of shares; Class A Shares and Fortress Shares.

(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.

INVESTMENT VALUATIONS--U.S. government securities are generally valued at the mean between the over-the-counter bid and asked prices as furnished by an independent pricing service. Listed corporate bonds (and other fixed income and asset-backed securities), unlisted securities (and other fixed-income and asset-backed securities and/or private placements) and short-term securities are valued at the prices provided by an independent pricing service. Short-term securities with remaining maturities of sixty days or less at the time of purchase may be valued at amortized cost, which approximates value.

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 under repurchase agreement transactions. Additionally, procedures have been established by the Fund to monitor, on a daily basis, the market value of each repurchase agreement's collateral to ensure that the value of collateral at least equals the repurchase price to be paid under the repurchase agreement transaction.

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 the guidelines and/or standards reviewed or established by the Board of Directors (the "Directors"). Risks may arise from the potential inability of counterparties to honor the terms of the repurchase agreement. Accordingly, the Fund could receive less than the repurchase price on the sale of collateral securities.

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LIMITED TERM FUND

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.

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 income. Accordingly, no provisions for federal tax are necessary.

At November 30, 1994, the Fund, for federal tax purposes, had a capital loss carryforward of \$9,607,384, 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, (\$9,607,384).

EQUALIZATION--The Fund follows the accounting practice known as equalization, in which a portion of the proceeds from sales and costs of redemptions of fund shares 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 fund shares.

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.

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 its shares, have been deferred and are being amortized using the straight-line method not to exceed a period of five years from the Funds' commencement date.

RESTRICTED SECURITIES--Restricted securities are securities that may only be resold upon registration under federal securities laws or in transactions exempt from such registration. In some cases, the issuer of restricted securities has agreed to register such securities for resale, at the

issuer's expense either upon demand by the Fund or in connection with another registered offering of the securities. Many restricted securities may be resold in the secondary market in transactions exempt from registration. Such restricted securities may be determined to be liquid under criteria established by the Directors. The Fund will not incur any registration costs upon

LIMITED TERM FUND

such resales. The Fund's restricted securities are valued at the prices provided by dealers in the secondary market or, if no market prices are available, at the fair value as determined by the Fund's pricing committee. Additional information on each restricted security held at May 31, 1995, is as follows:

<TABLE>
<CAPTION>

| SECURITY | ACQUISITION DATE | ACQUISITION COST |
|---|------------------|------------------|
| <S> | <C> | <C> |
| Encyclopedia Britannica Dom. Funding Corp., Series 1994-1 | 3/21/94 | \$1,479,217 |
| Conti Mortgage Home Equity Loan Trust 1993-3, Class A-2 | 9/16/94 | 4,251,039 |
| Conti Mortgage Home Equity Loan Trust 1994-1, Class A-3 | 2/18/94 | 1,999,719 |
| Conti Mortgage Home Equity Loan Trust 1994-1, Class A-5 | 2/18/94 | 4,117,806 |
| Concord Leasing Grantor Trust 1992-C, Class A-1 | 8/14/92 | 249,143 |

</TABLE>

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

(3) CAPITAL STOCK

At May 31, 1995, there were 10,000,000,000 shares of \$0.001 par value capital stock authorized for the Corporation. 2,000,000,000 shares have been designated for the Fund. Of these shares 1,000,000,000 have been designated as Class A Shares and 1,000,000,000 as Fortress Shares of the Fund. Transactions in shares were as follows:

<TABLE>
<CAPTION>

| CLASS A SHARES | SIX MONTHS ENDED MAY 31, 1995 | | YEAR ENDED NOVEMBER 30, 1994 | |
|--|-------------------------------|----------------|------------------------------|----------------|
| | SHARES | AMOUNT | SHARES | AMOUNT |
| <S> | <C> | <C> | <C> | <C> |
| Shares Sold | 342,471 | \$ 3,280,954 | 6,954,884 | \$ 69,748,905 |
| Shares issued to shareholders in payment of distributions declared | 316,384 | 3,030,388 | 935,518 | 9,190,553 |
| Shares redeemed | (4,106,814) | (39,361,434) | (13,505,266) | (133,005,809) |
| Net change resulting from Class A Shares share transactions | (3,447,959) | (\$33,050,092) | (5,614,864) | (\$54,066,351) |

</TABLE>

LIMITED TERM FUND

<TABLE>
<CAPTION>

| FORTRESS SHARES | SIX MONTHS ENDED MAY 31, 1995 | | YEAR ENDED NOVEMBER 30, 1994* | |
|-----------------|-------------------------------|--------------|-------------------------------|---------------|
| | SHARES | AMOUNT | SHARES | AMOUNT |
| <S> | <C> | <C> | <C> | <C> |
| Shares Sold | 110,405 | \$ 1,059,776 | 1,322,242 | \$ 13,171,453 |

| | | | | |
|--|-------------|----------------|-------------|----------------|
| Shares issued to shareholders in payment of distributions declared | 19,220 | 183,507 | 48,336 | 472,000 |
| Shares redeemed | (434,816) | (4,151,348) | (666,787) | (6,475,435) |
| Net change resulting from Fortress Shares share transactions | (305,191) | (\$ 2,908,065) | 703,791 | \$ 7,168,018 |
| Net change resulting from Fund share transactions | (3,753,150) | (\$35,958,157) | (4,911,073) | (\$46,898,333) |

<FN>

* For the period from August 31, 1993 (date of initial public offering) to November 30, 1993.

</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 .40 of 1% of the Fund's average daily net assets. The Adviser may voluntarily choose to waive a portion of its fee. The Adviser can modify or terminate this voluntary waiver at any time at its sole discretion.

ADMINISTRATIVE FEE--Federated Administrative Services ("FAS"), under the Administrative Services Agreement, provides the Fund with administrative personnel and services. 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.

DISTRIBUTION 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 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 Fortress Shares. The Plan provides that the Fund may incur distribution expenses up to .50 and .15, respectively, of 1% of the average daily net assets of the Class A Shares and Fortress Shares, respectively, annually, to compensate FSC. The distributor may voluntarily choose to waive a portion of its fee. The distributor can modify or terminate this voluntary waiver at any time at its sole discretion.

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 daily

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LIMITED TERM FUND

net assets of the Fund for the period. This fee is to obtain certain personal services for shareholders and to maintain the shareholder accounts.

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

PORTFOLIO ACCOUNTING FEES--Fserv also maintains the Fund's accounting records for which it receives a fee. The fee is based on the level of each Fund's average net assets for the period plus, out-of-pocket expenses.

ORGANIZATIONAL EXPENSES--Organizational expenses of \$66,620 and start-up administrative service expenses of \$65,386 were borne initially by the Adviser. The Fund has agreed to reimburse the adviser for the organizational and start-up administrative expenses during the five year period following December 24, 1991 (date the Fund became effective). For the period ended May 31, 1995, the Fund paid \$17,765 and \$8,988, respectively, pursuant to this agreement.

GENERAL--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 period ended May 31, 1995, were as follows:

| <TABLE> <CAPTION> | |
|----------------------|--------------|
| <S> | <C> |
| PURCHASES-- | \$56,327,275 |
| SALES-- | \$61,392,186 |

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| <TABLE> <CAPTION> | |
|-------------------------|------------------------------|
| DIRECTORS | OFFICERS |
| <S> | <C> |
| John F. Donahue | John F. Donahue |
| Thomas G. Bigley | CHAIRMAN |
| John T. Conroy, Jr. | Richard B. Fisher |
| William J. Copeland | PRESIDENT |
| James E. Dowd | J. Christopher Donahue |
| Lawrence D. Ellis, M.D. | VICE PRESIDENT |
| Richard B. Fisher | Edward C. Gonzales |
| Edward L. Flaherty, Jr. | VICE PRESIDENT AND TREASURER |
| Peter E. Madden | John W. McGonigle |
| Gregor F. Meyer | VICE PRESIDENT AND SECRETARY |
| John E. Murray, Jr. | David M. Taylor |
| Wesley W. Posvar | ASSISTANT TREASURER |
| Marjorie P. Smuts | Charles H. Field |
| | ASSISTANT SECRETARY |

Mutual funds are not bank deposits or obligations, are not guaranteed by any bank, and are not insured or guaranteed by the U.S. government, the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other government agency. Investment in mutual funds involves investment risk, including possible loss of principal.

This report is authorized for distribution to prospective investors only when preceded or accompanied by the Fund's prospectus which contains facts concerning its objective and policies, management fees, expenses and other information.

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[LOGO]
FEDERATED SECURITIES CORP.

Distributor

A Subsidiary of Federated Investors

Federated Investors Tower
Pittsburgh, PA 15222-3779

Cusip 338319106
Cusip 338319304
3070201 (7/95)

[LOGO] FEDERATED INVESTORS

Limited
Term Municipal
Fund

Semi-Annual Report
May 31, 1995

Established 1993

MUNICIPAL

PRESIDENT'S MESSAGE

[PHOTO]

Dear Shareholder:

Limited Term Municipal Fund was established in 1993, and I am pleased to present the 1995 Semi-Annual Report to shareholders.

This report features an investment review by the fund's portfolio manager, Mary Jo Ochson, Vice President of Federated Advisers, followed by the fund's Portfolio of Investments and Financial Highlights.

The fund's assets totaled \$42.5 million as of May 31, 1995, and the fund paid monthly dividends during the six-month period totaling \$0.23 per share for Class A Shares and \$0.24 per share for Fortress Shares. The 30-day yields for the fund as of May 31, 1995 were 4.81% for Class A Shares and 4.93% for Fortress Shares. Investors in the 39.6% tax bracket have a taxable equivalent yield of 7.96% for Class A Shares and 8.16% for Fortress Shares.

The Limited Term Municipal Fund continues to serve as an excellent vehicle for investors seeking a combination of competitive, tax-free income with a short effective maturity. The fund's holdings as of May 31, 1995 are rated as follows: 48% are rated A or better, 28% are rated BBB, and 17% are non-rated.* The fund's diversification includes bonds issued by hospitals, single-family housing authorities, electric revenue, and resource recovery bonds.

The fund's total returns for the six-month period were 4.21% for Class A Shares and 3.32% for Fortress Shares**, up significantly from our last report in November, 1994.

With the Republican resurgence, there has been a great deal of publicity - --written and oral--about the proposed flat income tax. This proposal will receive a considerable amount of attention, but we do not believe much action will be taken in 1995 or 1996. However, investors are watchful in selecting their maturities, and it may be prudent to err on the short side. The fund is currently in that arena--the fund's effective maturity is 2.6 years, and its effective duration is 2.3 years.

This fund can be considered as a tax-free security with an average credit rating of A* and an effective maturity of under 3 years offering an attractive yield.

Thank you for choosing Limited Term Municipal Fund as a way to pursue competitive, tax-free monthly income. We appreciate your continued support and welcome your comments or questions.

Sincerely,

/s/ RICHARD B. FISHER

Richard B. Fisher
President
July 14, 1995

* RATINGS ARE ACCORDING TO STANDARD AND POOR'S RATINGS GROUP AND ARE SUBJECT TO CHANGE.

** PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, THEREFORE AN INVESTOR'S SHARES WHEN REDEEMED MAY BE WORTH MORE OR LESS THAN THE ORIGINAL COST.

INVESTMENT REVIEW

[PHOTO]

MARY JO OCHSON
VICE PRESIDENT OF FEDERATED ADVISERS
AND SENIOR PORTFOLIO MANAGER

For the six-month period ended May 31, 1995, investors in Limited Term Municipal Fund experienced a total return of 4.21% and 3.32% for Class A Shares and Fortress Shares, respectively.*

During the same period, the Lehman Brothers Five-Year Municipal Bond Index experienced a total return of 5.18%, and the Lehman Brothers Three-Year Municipal Bond Index experienced a total return of 3.46%.** The positive price component of both the fund and these indexes was the result of the recent decline in interest rates that caused bond prices to rise.

In the face of resilient economic growth and pressures on resource

utilization, the Federal Reserve Board (the "Fed") continued to tighten credit throughout the fourth quarter of 1994 and into February, 1995. Since February, however, there has been a continued outpouring of sluggish economic data, suggesting that the 1994/1995 tightening cycle by the Fed is starting to take hold. As a result, market participants took these signs of slowing, coupled with a modest acceleration in inflation, to mean that the Fed would not increase rates further and perhaps move to cut borrowing costs if the downturn in economic growth continued.

Interest rates for short-intermediate fixed rate income issues responded to the market's expectations with a sharp drop. From November 30, 1994, to May 31, 1995, Five-Year U.S. Treasury bonds declined from 7.78% to 6.05%. Over the same period, rates for five-year "A"*** rated general obligation bonds descended from 5.68% to 4.73%. The threat of potential tax law changes and the lure of the equity market caused weak demand for municipal securities during the period. Consequently, municipals underperformed government securities.

From November 30, 1994 to May 31, 1995, net assets of the fund decreased from \$45.4 million to \$42.5 million. We maintained an effective duration in the two to three year range over the period. A fund with a short duration, such as ours, will be less responsive to interest rate changes than a fund with a long duration. This is an important consideration for investors that want to limit volatility in their municipal investments.

* PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENT RETURN AND PRINCIPAL VALUE WILL FLUCTUATE, THEREFORE AN INVESTOR'S SHARES WHEN REDEEMED MAY BE WORTH MORE OR LESS THAN THE ORIGINAL COST.

** THESE INDEXES ARE UNMANAGED.

*** RATINGS ARE ACCORDING TO STANDARD AND POOR'S RATINGS GROUP AND ARE SUBJECT TO CHANGE.

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Over the period, the entire fund has been invested in tax-exempt securities with an average credit quality of "A."*** Management has found value over the period in "A" rated hospitals and BBB rated utility and airport bonds.*** Our credit expertise in these areas has allowed us to take advantage of the credit spreads available in the marketplace. In addition, we have continued to avoid derivative securities due to liquidity and valuation concerns.

*** RATINGS ARE ACCORDING TO STANDARD AND POOR'S RATINGS GROUP AND ARE SUBJECT TO CHANGE.

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LIMITED TERM MUNICIPAL FUND--
PORTFOLIO UPDATE

PLEASE SEE APPENDIX B

4

LIMITED TERM MUNICIPAL FUND
PORTFOLIO OF INVESTMENTS
MAY 31, 1995 (UNAUDITED)

<TABLE>
<CAPTION>

| PRINCIPAL AMOUNT | | CREDIT RATING* | VALUE |
|--|---|----------------|--------------|
| <C> | <S> | <C> | <C> |
| ----- | | | |
| SHORT-TERM MUNICIPAL SECURITIES--11.6% | | | |
| ----- | | | |
| | KENTUCKY--9.2% | | |
| ----- | | | |
| \$3,900,000 | Kentucky Pollution Abatement & Water Resource Finance Authority Daily VRDNs (Toyota Motor Credit Corp.) | AAA | \$ 3,900,000 |
| ----- | | | |
| | MINNESOTA--2.4% | | |
| ----- | | | |
| 1,000,000 | Bass Brook, MN, PCR, 4.50% CP (Minnesota Power And Light Co.), Mandatory Tender 6/7/1995 | P-2 | 1,000,000 |

| TOTAL SHORT-TERM MUNICIPAL SECURITIES (AT AMORTIZED COST) | | | 4,900,000 |
|---|---|-----|-----------|
| LONG-TERM MUNICIPAL SECURITIES--84.1% | | | |
| CALIFORNIA--2.4% | | | |
| 1,000,000 | California State Veteran Affairs, 7.375% GO Bond (Subject to AMT)/(Citibank N.A. LOC), Optional Tender 10/1/1995 (@100) | A+ | 1,000,000 |
| COLORADO--7.2% | | | |
| 500,000 | Colorado Student Obligation Bond Authority, 5.20% Student Loan Revenue Bonds, (Series 1994J), 9/1/1997 | A | 499,745 |
| 1,000,000 | Colorado Student Obligation Bond Authority, 5.40% Student Loan Revenue Bonds, (Series 1994J), 9/1/1998 | A | 1,002,560 |
| 1,500,000 | Denver, (City & County), CO, Airport System, 6.00% Subordinate Revenue Bonds, (Series 1991C)/(Sumitomo Trust & Banking Co, Ltd Osaka LOC), Mandatory Tender 4/1/1997 (@100) | A | 1,532,430 |
| Total | | | 3,034,735 |
| FLORIDA--0.5% | | | |
| 200,000 | Jacksonville, FL, Electric Authority, 6.50% Special Obligation Revenue (St. John's River Power Park System), Callable 10/1/1999 (@101.5) | AA | 209,236 |
| ILLINOIS--11.2% | | | |
| 750,000 | Chicago, IL, 7.50% Gas Supply Revenue Bonds (Peoples Gas, Light & Coke Co.), Callable 3/1/2000 (@102) | AA- | 817,230 |

</TABLE>

5

LIMITED TERM MUNICIPAL FUND

<TABLE>

<CAPTION>

| PRINCIPAL AMOUNT | | CREDIT RATING* | VALUE |
|---|---|----------------|------------|
| <C> | <S> | <C> | <C> |
| LONG-TERM MUNICIPAL SECURITIES--CONTINUED | | | |
| ILLINOIS--CONTINUED | | | |
| \$ 500,000 | Illinois Development Finance Authority, 5.25% Revenue Bonds (Series 1993C)/(Catholic Charities Housing Development Corp.)/(Archdiocese of Chicago Guaranty), 1/1/1999 | NR | \$ 490,400 |
| 365,000 | Illinois Educational Facilities Authority, 4.90% Refunding Revenue Bonds (Illinois Institute of Technology), 12/1/1996 | BBB | 365,584 |
| 380,000 | Illinois Educational Facilities Authority, 5.05% Refunding Revenue Bonds (Illinois Institute of Technology) 12/1/1997 | BBB | 380,543 |
| 400,000 | Illinois Educational Facilities Authority, 5.25% Refunding Revenue Bonds (Illinois Institute of Technology), 12/1/1998 | BBB | 402,632 |
| 220,000 | Illinois Health Facilities Authority, 5.30% Refunding Revenue Bonds (Lutheran Social Services of Illinois), 8/15/1998 | NR | 217,371 |
| 1,000,000 | Illinois Health Facilities Authority, 6.15% Revenue Bonds (Trinity Medical Center)/(Original Issue Yield: 6.25%), 7/1/1998 | Baa1 | 1,016,800 |
| 1,000,000 | Illinois Health Facilities Authority, 6.30% Revenue Bonds (Trinity Medical Center)/(Original Issue Yield: 6.50%), 7/1/1999 | Baa1 | 1,019,810 |

| ----- | | ----- | |
|---------------------|---|-----------|---------|
| Total | | 4,710,370 | |
| ----- | | | |
| INDIANA--0.6% | | | |
| 225,000 | Marion County, IN, 6.50% Hospital Authority Refunding Revenue Bonds, (Methodist Hospital), Callable 9/1/1999 (@102) | AA | 236,376 |
| ----- | | | |
| MASSACHUSETTS--9.2% | | | |
| 250,000 | Greater New Bedford, MA, Regional Refuse Management District, 4.90% Landfill GO Bonds, (Subject to AMT), 5/1/1998 | Baa | 248,058 |
| 515,000 | Massachusetts State HEFA, 5.00% Revenue Bonds (Series B)/ (Holyoke Hospital), 7/1/1996 | Baa1 | 513,960 |
| 545,000 | Massachusetts State HEFA, 5.25% Revenue Bonds (Series A)/ (Holyoke Hospital), 7/1/1997 | Baa1 | 541,207 |
| 605,000 | Massachusetts State HEFA, 5.75% Revenue Bonds, (Series B)/ (Holyoke Hospital), 7/1/1999 | Baa1 | 599,240 |
| ----- | | | |

</TABLE>

6

LIMITED TERM MUNICIPAL FUND

| ----- | | | |
|---|--|----------------|--------------|
| <TABLE> | | | |
| <CAPTION> | | | |
| PRINCIPAL AMOUNT | | CREDIT RATING* | VALUE |
| ----- | | | |
| <C> | <S> | <C> | <C> |
| LONG-TERM MUNICIPAL SECURITIES--CONTINUED | | | |
| ----- | | | |
| MASSACHUSETTS--CONTINUED | | | |
| \$2,000,000 | Massachusetts State IFA, 8.00% Solid Waste Disposal Revenue Bonds (Series 1994A)/(Sr. Lien-Massachusetts Recycling Association/Fitchburg Project)/(Subject to AMT), 7/1/1999 | NR | \$ 2,008,040 |
| ----- | | | |
| Total | | 3,910,505 | |
| ----- | | | |
| MINNESOTA--4.0% | | | |
| 1,500,000 | St. Paul, MN, Housing & Redevelopment Authority, 9.75% Hospital Revenue Bonds (Series B)/(Healtheast Project), Callable 11/1/1997 (@102) | BBB- | 1,674,405 |
| ----- | | | |
| MISSOURI--2.4% | | | |
| 1,000,000 | Kansas City, MO, IDA, 6.05% PCR Revenue Bonds (General Motors Corp.), Callable 6/1/1999 (@101) | BBB+ | 1,019,100 |
| ----- | | | |
| NEW YORK--2.0% | | | |
| 350,000 | New York City, NY, 4.88% UT GO Bonds (Series E), 8/1/1999 | A- | 345,786 |
| 200,000 | New York City, NY, 4.88% UT GO Bonds (Series F), 8/1/1999 | A- | 197,592 |
| 300,000 | New York City, NY, 4.88% UT GO Bonds (Series G), 8/1/1999 | A- | 296,388 |
| ----- | | | |
| Total | | 839,766 | |
| ----- | | | |
| NORTH CAROLINA--1.5% | | | |
| 620,000 | North Carolina Eastern Municipal Power Agency, 7.25% Revenue Bonds, Callable 1/1/1997 (@102) | A | 648,346 |
| ----- | | | |
| OHIO--8.0% | | | |
| 1,000,000 | Bellefontaine, OH, 5.00% Hospital Revenue Bonds (Mary Rutan Health Association), 12/1/1997 | BBB | 987,090 |
| 1,500,000 | Clyde, OH, Temp. Water System, 5.60% Improvement Revenue Bonds (Series 1994), 5/1/1997 | MIG1 | 1,536,825 |
| 250,000 | Marion County, OH, Health Care Facilities, 4.75% | | |

</TABLE>

7

LIMITED TERM MUNICIPAL FUND

<TABLE>

<CAPTION>

| PRINCIPAL AMOUNT | | CREDIT RATING* | VALUE |
|---|---|----------------|------------|
| <C> | <S> | <C> | <C> |
| LONG-TERM MUNICIPAL SECURITIES--CONTINUED | | | |
| OHIO--CONTINUED | | | |
| \$ 630,000 | Marion County, OH, Health Care Facilities, 5.00% Refunding Revenue Bonds (Series 1993)/(United Church Homes, Inc.), 11/15/1997 | BBB- | \$ 625,395 |
| | Total | | 3,397,988 |
| PENNSYLVANIA--9.5% | | | |
| 1,000,000 | Allegheny County, PA, Higher Education Building Authority, 7.625% Revenue Bonds, (La Roche College), Callable 12/1/96 (@100) | NR | 1,025,110 |
| 495,000 | Allegheny County, PA, Residential Finance Authority, 4.875% Single Family Mortgage Refunding Revenue Bonds (GNMA/ FMNA Collateralized), Callable 11/1/2003 (@102) | Aaa | 473,705 |
| 750,000 | Beaver County, PA, IDA, 7.75% PCR Bonds (Series A)/(Ohio Edison Project), Callable 9/1/1999 (@102) | BBB- | 786,053 |
| 125,000 | Philadelphia, PA, Hospital & Higher Education Facilities Authority, 6.60% Hospital Revenue Bonds (Series B)/ (Children's Seashore House), 8/15/1998 | BBB+ | 129,310 |
| 675,000 | Scranton, PA, Lackawanna Health & Welfare Authority, 5.00% Revenue Bonds (Allied Services Rehabilitation Hospital), 7/15/1995 | NR | 669,701 |
| 455,000 | Scranton, PA, Lackawanna Health & Welfare Authority, 5.40% Revenue Bonds (Allied Services Rehabilitation Hospitals, PA), 7/15/1996 | NR | 452,579 |
| 485,000 | Scranton, PA, Lackawanna Health & Welfare Authority, 5.75% Revenue Bonds (Allied Services Rehabilitation Hospital), 7/15/1997 | NR | 483,050 |
| | Total | | 4,019,508 |
| PUERTO RICO--8.6% | | | |
| 2,000,000 | Puerto Rico, 5.00% Municipal Finance Agency Bonds (Series 1994A)/(Original Issue Yield: 5.10%), 7/1/1998 | A- | 2,010,780 |

</TABLE>

8

LIMITED TERM MUNICIPAL FUND

<TABLE>

<CAPTION>

| PRINCIPAL AMOUNT | | CREDIT RATING* | VALUE |
|---|---|----------------|--------------|
| <C> | <S> | <C> | <C> |
| LONG-TERM MUNICIPAL SECURITIES--CONTINUED | | | |
| PUERTO RICO--CONTINUED | | | |
| \$1,600,000 | Puerto Rico, Electric Power Authority, 5.00% Power Revenue Bonds (Series T), 7/1/1997 | A- | \$ 1,624,832 |
| | Total | | 3,635,612 |
| SOUTH DAKOTA--1.3% | | | |

| | | | |
|-----------------|--|------|-----------|
| 215,000 | South Dakota HEFA, 5.50% Revenue Bonds, (Series 1994)/ (Huron Regional Medical Center Issue), 4/1/1998 | BBB- | 212,904 |
| 225,000 | South Dakota HEFA, 6.00% Revenue Bonds, (Series 1994)/ (Huron Regional Medical Center Issue), 4/1/1999 | BBB- | 224,444 |
| 105,000 | South Dakota State HEFA, 5.40% Revenue Bonds, (Series 1994)/(Huron Regional Medical Center), 4/1/1997 | BBB- | 104,720 |
| | Total | | 542,068 |
| ----- | | | |
| TENNESSEE--3.6% | | | |
| 1,500,000 | Springfield, TN, Health & Educational Facilities Board, 7.50% Hospital Revenue Bonds (Jesse Holman Jones Hospital), 4/1/2000 | NR | 1,522,140 |
| ----- | | | |
| TEXAS--5.6% | | | |
| 1,800,000 | Brazos River Authority, TX, 8.25% Revenue Bonds (Houston Light & Power Company), Callable 5/1/1998 (@102) | A | 1,977,660 |
| 350,000 | Brazos River Authority, TX, 9.875% PCR Bonds, (Texas Utilities Electric Company)/(Subject to AMT), 5/1/1998 @102 | BBB | 394,576 |
| | Total | | 2,372,236 |
| ----- | | | |
| VIRGINIA--6.5% | | | |
| 255,000 | Prince William County, VA Industrial Development Authority, Hospital Revenue Bond, 6.00% (Potomac Hospital Corp., VA), 10/1/1998 | A | 262,877 |
| 200,000 | Prince William County, VA, IDA, 5.90% Hospital Facilities Revenue Bonds (Potomac Hospital Corp.), 10/1/1997 | A | 204,830 |
| 255,000 | Prince William County, VA, IDA, 6.10% Hospital Facilities Revenue Bonds (Potomac Hospital Corp.), 10/1/1999 | A | 264,078 |

</TABLE>

9

LIMITED TERM MUNICIPAL FUND

| <TABLE> | | | |
|--|---|----------------|---------------|
| <CAPTION> | | | |
| PRINCIPAL AMOUNT | | CREDIT RATING* | VALUE |
| ----- | | | |
| <C> | <S> | <C> | <C> |
| LONG-TERM MUNICIPAL SECURITIES--CONTINUED | | | |
| ----- | | | |
| VIRGINIA--CONTINUED | | | |
| \$2,000,000 | Virginia State Housing Development Authority Commission, 5.40% Mortgage Revenue Bonds (Series 1994G-2)/(Subject to AMT), 1/1/1998 | AA+ | \$ 2,021,000 |
| | Total | | 2,752,785 |
| ----- | | | |
| TOTAL LONG-TERM MUNICIPAL SECURITIES (IDENTIFIED COST, \$35,442,183) | | | 35,525,176 |
| ----- | | | |
| TOTAL INVESTMENTS (IDENTIFIED COST, \$40,342,183) | | | \$40,425,176+ |
| ----- | | | |

<FN>

* Please refer to the Appendix of the Statement of Additional Information for an explanation of the credit ratings. Current credit ratings are unaudited.

+ The cost of investments for federal tax purposes amounts to \$40,342,183. The net unrealized appreciation on federal tax cost basis amounts to \$82,993, and is comprised of \$238,743 appreciation and \$155,750 depreciation at May 31, 1995.

Note: The categories of investments are shown as a percentage of net assets

</TABLE>

The following abbreviations are used throughout this portfolio:

- AMT --Alternative Minimum Tax
- CP --Commercial Paper
- FNMA --Federal National Mortgage Association
- GNMA --Government National Mortgage Association
- GO --General Obligation
- HEFA --Health and Education Facilities Authority
- IDA --Industrial Development Authority
- IFA --Industrial Finance Authority
- LOC --Letter of Credit
- PCR --Pollution Control Revenue
- UT --Unlimited Tax
- VRDNs --Variable Rate Demand Notes

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

10

LIMITED TERM MUNICIPAL FUND
STATEMENT OF ASSETS AND LIABILITIES
MAY 31, 1995 (UNAUDITED)

| | <C> | <C> |
|--|-----------|---------------|
| ASSETS: | | |
| Investments in securities, at value (identified and tax cost \$40,342,183) | | \$ 40,425,176 |
| Cash | | 45,313 |
| Income receivable | | 709,604 |
| Receivable for shares sold | | 1,434,117 |
| Deferred expenses | | 58,641 |
| Total assets | | 42,672,851 |
| LIABILITIES: | | |
| Payable for shares redeemed | \$ 95,476 | |
| Income distribution payable | 55,278 | |
| Accrued expenses | 58,042 | |
| Total liabilities | | 208,796 |
| NET ASSETS for 4,346,964 shares outstanding | | \$ 42,464,055 |
| NET ASSETS CONSISTS OF: | | |
| Paid in capital | | \$ 44,824,648 |
| Net unrealized appreciation (depreciation) of investments | | 82,993 |
| Accumulated net realized gain (loss) on investments | | (2,443,586) |
| Total Net Assets | | \$ 42,464,055 |
| FORTRESS SHARES: | | |
| Net Asset Value Per Share (\$14,494,197 DIVIDED BY 1,483,736 shares outstanding) | | \$ 9.77 |
| Offering Price Per Share (100/99 of \$9.77) * | | \$ 9.87 |
| Redemption Proceeds Per Share (99/100 of \$9.77) ** | | \$ 9.67 |
| CLASS A SHARES: | | |
| Net Asset Value Per Share (\$27,969,858 DIVIDED BY 2,863,228 shares outstanding) | | \$ 9.77 |
| Offering Price Per Share (100/99 of \$9.77) * | | \$ 9.87 |

<FN>

* See "What Shares Cost" in the Prospectus.

** See "Redeeming Fortress Shares" in the Prospectus.

</TABLE>

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

11

LIMITED TERM MUNICIPAL FUND
 STATEMENT OF OPERATIONS
 SIX MONTHS ENDED MAY 31, 1995 (UNAUDITED)

<TABLE>

<S>

<C>

<C>

<C>

INVESTMENT INCOME:

Interest income \$ 1,183,279

EXPENSES:

Investment advisory fee \$ 84,186

Administrative personnel and services fee 77,288

Custodian fees 23,784

Transfer agent and dividend disbursing agent fees and expenses 17,258

Directors'/Trustees' fees 2,730

Auditing fees 10,010

Legal fees 3,688

Portfolio accounting fees 3,250

Distribution services fee--Fortress Shares 6,671

Distribution services fee--Class A Shares 35,940

Shareholder services fee--Fortress Shares 15,342

Shareholder services fee--Class A Shares 30,189

Share registration costs 28,756

Printing and postage 24,934

Insurance premiums 2,730

Taxes 2,002

Miscellaneous 8,369

Total expenses 377,127

Deduct--

Waiver of investment advisory fee \$ 84,186

Reimbursement of other operating expenses by Adviser 120,578

Total waivers/reimbursements 204,764

Net expenses 172,363

Net investment income 1,010,916

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:

Net realized gain(loss) on investments (456,501)

Net change in unrealized appreciation(depreciation) on investments 1,637,189

Net realized and unrealized gain(loss) on investments 1,180,688

Change in net assets resulting from operations \$ 2,191,604

</TABLE>

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

12

LIMITED TERM MUNICIPAL FUND
STATEMENT OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

| | SIX MONTHS ENDED MAY 31, 1995 (UNAUDITED) | YEAR ENDED NOVEMBER 30, 1994 |
|--|--|------------------------------------|
| <S> | <C> | <C> |
| INCREASE (DECREASE) IN NET ASSETS: | | |
| OPERATIONS-- | | |
| Net investment income | \$ 1,010,916 | \$ 1,950,059 |
| Net realized gain (loss) on investments (\$456,501 net loss and \$1,987,086 net loss, respectively, as computed for federal income tax purposes) | (456,501) | (1,987,086) |
| Net change in unrealized appreciation (depreciation) on investments | 1,637,189 | (1,490,568) |
| Change in assets resulting from operations | 2,191,604 | (1,527,595) |
| DISTRIBUTIONS TO SHAREHOLDERS-- | | |
| Distributions from net investment income: | | |
| Fortress Shares | (329,750) | (452,363) |
| Class A Shares | (681,166) | (1,497,696) |
| Change in net assets resulting from distributions to shareholders | (1,010,916) | (1,950,059) |
| SHARE TRANSACTIONS | | |
| Proceeds from sale of Shares | 9,429,453 | 84,145,643 |
| Net asset value of Shares issued to shareholders in payment of distributions declared | 663,339 | 1,275,042 |
| Cost of Shares redeemed | (14,257,391) | (53,496,962) |
| Change in net assets resulting from share transactions | (4,164,599) | 31,923,723 |
| Change in net assets | (2,983,911) | 28,446,069 |
| NET ASSETS: | | |
| Beginning of period | 45,447,966 | 17,001,897 |
| End of period | \$ 42,464,055 | \$ 45,447,966 |

</TABLE>

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

13

LIMITED TERM MUNICIPAL FUND
FINANCIAL HIGHLIGHTS--CLASS A SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

<TABLE>
<CAPTION>

| | SIX MONTHS ENDED MAY 31, 1995 (UNAUDITED) | YEAR ENDED NOVEMBER 30, | |
|--------------------------------------|--|----------------------------|----------|
| | | 1994 | 1993 (a) |
| <S> | <C> | <C> | <C> |
| NET ASSET VALUE, BEGINNING OF PERIOD | \$ 9.49 | \$ 10.02 | \$ 10.00 |
| INCOME FROM INVESTMENT OPERATIONS | | | |

| | | | |
|--|-----------|----------|-----------|
| Net investment income | 0.23 | 0.43 | 0.10 |
| Net realized and unrealized gain (loss) on investments | 0.28 | (0.53) | 0.02 |
| Total from investment operations | 0.51 | (0.10) | 0.12 |
| LESS DISTRIBUTIONS | | | |
| Distributions from net investment income | (0.23) | (0.43) | (0.10) |
| NET ASSET VALUE, END OF PERIOD | \$ 9.77 | \$ 9.49 | \$ 10.02 |
| TOTAL RETURN (b) | 5.31% | (0.95%) | 1.20% |
| RATIOS TO AVERAGE NET ASSETS | | | |
| Expenses | 0.86% (c) | 0.63% | 0.50% (c) |
| Net investment income | 4.74% (c) | 4.33% | 4.30% (c) |
| Expense waiver/reimbursement (d) | 0.97% (c) | 0.94% | 1.71% (c) |
| SUPPLEMENTAL DATA | | | |
| Net assets, end of period (000 omitted) | \$27,970 | \$32,644 | \$13,694 |
| Portfolio turnover | 7% | 135% | 0% |

<FN>

(a) Reflects operations for the period from September 1, 1993 (date of initial public offering) to November 30, 1993.

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

(c) Computed on an annualized basis.

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

</TABLE>

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

14

LIMITED TERM MUNICIPAL FUND
FINANCIAL HIGHLIGHTS--FORTRESS SHARES

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

<TABLE>
<CAPTION>

| | SIX MONTHS | YEAR ENDED NOVEMBER 30, | |
|--|--------------------------------------|-------------------------|-----------|
| | ENDED MAY 31, 1995 (UNAUDITED) | 1994 | 1993 (a) |
| <S> | <C> | <C> | <C> |
| NET ASSET VALUE, BEGINNING OF PERIOD | \$ 9.49 | \$ 10.02 | \$ 10.00 |
| INCOME FROM INVESTMENT OPERATIONS | | | |
| Net investment income | 0.24 | 0.45 | 0.11 |
| Net realized and unrealized gain (loss) on investments | 0.28 | (0.53) | 0.02 |
| Total from investment operations | 0.52 | (0.08) | 0.13 |
| LESS DISTRIBUTIONS | | | |
| Distributions from net investment income | (0.24) | (0.45) | (0.11) |
| NET ASSET VALUE, END OF PERIOD | \$ 9.77 | \$ 9.49 | \$ 10.02 |
| TOTAL RETURN (b) | 5.38% | (0.75%) | 1.26% |
| RATIOS TO AVERAGE NET ASSETS | | | |
| Expenses | 0.73% (c) | 0.44% | 0.25% (c) |

| | | | |
|---|----------|----------|----------|
| Net investment income | 4.88%(c) | 4.57% | 4.79%(c) |
| Expense waiver/reimbursement (d) | 0.97%(c) | 0.94% | 1.86%(c) |
| SUPPLEMENTAL DATA | | | |
| Net assets, end of period (000 omitted) | \$14,494 | \$12,804 | \$3,307 |
| Portfolio turnover | 7% | 135% | 0% |

<FN>

- (a) Reflects operations for the period from September 1, 1993 (date of initial public offering) to November 30, 1993.
- (b) Based on net asset value, which does not reflect the sales load or contingent deferred sales charge, if applicable.
- (c) Computed on an annualized basis.
- (d) This voluntary expense decrease is reflected in both the expense and net investment income ratios shown above.

</TABLE>

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

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LIMITED TERM MUNICIPAL FUND
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1995

1. ORGANIZATION

Fixed Income Securities, Inc. (the "Corporation") is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end diversified management investment company. The Corporation consists of three diversified portfolios. The financial statements included herein are only those of Limited Term Municipal Fund (the "Fund"). The financial statements of the other portfolios are presented separately. The assets of each portfolio are segregated and a shareholder's interest is limited to the portfolio in which shares are held. The Fund offers two classes of shares, Fortress Shares and Class A Shares.

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.

INVESTMENT VALUATIONS--Municipal bonds are valued by an independent pricing service taking into consideration yield, liquidity, risk, credit quality, coupon, maturity, type of issue, and any other factors or market data the pricing service deems relevant in determining valuations for normal institutional size trading units of debt securities. The independent pricing service does not rely exclusively on quoted prices. Short-term securities with remaining maturities of sixty days or less at the time of purchase may be valued at amortized cost, which approximates fair market value.

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.

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 income. Accordingly, no provisions for federal tax are necessary. At November 30, 1994, the Fund, for federal tax purposes, had a capital loss carryforward of \$1,987,086, 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 (\$1,987,086).

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

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LIMITED TERM MUNICIPAL FUND

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.

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 its 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.

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

3. CAPITAL STOCK

At May 31, 1995 there were 10,000,000,000 shares of \$0.001 par value capital stock authorized for the Corporation. 2,000,000,000 shares have been designated for the Fund. Of these shares, 1,000,000,000 have been designated as Fortress Shares of the Fund and 1,000,000,000 have been designated as Class A shares of the Fund. Transactions in shares were as follows:

<TABLE>

<CAPTION>

| | SIX MONTHS ENDED MAY 31, 1995 | | YEAR ENDED NOVEMBER 30, 1994 | |
|--|----------------------------------|--------------|---------------------------------|--------------|
| | SHARES | AMOUNT | SHARES | AMOUNT |
| FORTRESS SHARES | | | | |
| <S> | <C> | <C> | <C> | <C> |
| Shares Sold | 427,160 | \$ 4,099,681 | 1,295,783 | \$12,793,467 |
| Shares issued to shareholders in payment of distributions declared | 18,378 | 177,103 | 22,393 | 218,275 |
| Shares redeemed | (310,323) | (2,970,678) | (299,885) | (2,914,764) |
| Net change resulting from share transactions | 135,215 | \$ 1,306,106 | 1,018,291 | \$10,096,978 |

<FN>

* For the six months ended May 31, 1995.

</TABLE>

<TABLE>

<CAPTION>

| | SIX MONTHS ENDED MAY 31, 1995 | | YEAR ENDED NOVEMBER 30, 1994 | |
|--|----------------------------------|----------------|---------------------------------|--------------|
| | SHARES | AMOUNT | SHARES | AMOUNT |
| CLASS A SHARES | | | | |
| <S> | <C> | <C> | <C> | <C> |
| Shares Sold | 554,147 | \$ 5,329,772 | 7,174,691 | \$71,352,176 |
| Shares issued to shareholders in payment of distributions declared | 50,462 | 486,236 | 108,095 | 1,056,767 |
| Shares redeemed | (1,179,520) | (11,286,713) | (5,211,977) | (50,582,198) |
| Net change resulting from share transactions | (574,911) | \$ (5,470,705) | 2,070,809 | \$21,826,745 |
| Net change resulting from Fund share transactions | (439,696) | (4,164,599) | 3,089,100 | \$31,923,723 |

</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 .40 of 1% of the Fund's average

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LIMITED TERM MUNICIPAL FUND

daily net assets. The Adviser may voluntarily choose to waive any portion of its fee and 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"), under the

Administrative Services Agreement, provides the Fund with administrative personnel and services. 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.

DISTRIBUTION 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., the principal distributor, from the net assets of the Fund to finance activities intended to result in the sale of the Fund's Fortress Shares and Class A Shares. The Plan provides that the Fund may incur distribution expenses up to .15 and .25, respectively, of 1% of the average daily net assets of the Fortress Shares and Class A Shares, respectively, annually, to compensate FSC.

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 to obtain certain services for shareholders and to maintain shareholder accounts.

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

PORTFOLIO ACCOUNTING FEES--FServ maintains the Fund's accounting records for which it receives a fee. The fee is based on the level of the Fund's average net assets for the period plus, out-of-pocket expenses.

ORGANIZATIONAL EXPENSES--Organizational expenses of \$53,065 and start-up administrative service expenses of \$46,733 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 August 31, 1993 (date the Fund's portfolio first became effective). For the six months ended May 31, 1995, the Fund paid \$0 and \$0 respectively pursuant to this agreement.

INTERFUND TRANSACTIONS--During the six months ended May 31, 1995, the Fund engaged in purchase and sale transactions with funds that have a common investment advisor (or affiliated investment advisors), common directors/Trustees, and or common Officers. These transactions were made at current market value pursuant to Rule 17a-7 under the Act amounting to \$14,750,000 and \$12,000,000, respectively.

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LIMITED TERM MUNICIPAL FUND

GENERAL--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 six months ended May 31, 1995, were as follows:

<TABLE>
<CAPTION>

| <S> | <C> |
|-----------|---------------|
| PURCHASES | \$ 2,726,730 |
| SALES | \$ 13,760,640 |

</TABLE>

19

<TABLE>
<CAPTION>

| DIRECTORS | OFFICERS |
|-------------------------|------------------------------|
| <S> | <C> |
| John F. Donahue | John F. Donahue |
| Thomas G. Bigley | CHAIRMAN |
| John T. Conroy, Jr. | Richard B. Fisher |
| William J. Copeland | PRESIDENT |
| James E. Dowd | J. Christopher Donahue |
| Lawrence D. Ellis, M.D. | VICE PRESIDENT |
| Richard B. Fisher | Edward C. Gonzales |
| Edward L. Flaherty, Jr. | VICE PRESIDENT AND TREASURER |
| Peter E. Madden | John W. McGonigle |

Gregor F. Meyer
John E. Murray, Jr.
Wesley W. Posvar
Marjorie P. Smuts

VICE PRESIDENT AND SECRETARY
David M. Taylor
ASSISTANT TREASURER
Charles H. Field
ASSISTANT SECRETARY

</TABLE>

Mutual funds are not bank deposits or obligations, are not guaranteed by any bank, and are not insured or guaranteed by the U.S. government, the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other government agency. Investment in mutual funds involves investment risk, including possible loss of principal.

This report is authorized for distribution to prospective investors only when preceded or accompanied by the Fund's prospectus which contains facts concerning its objective and policies, management fees, expenses and other information.

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[LOGO]
FEDERATED SECURITIES CORP.

Distributor

A Subsidiary of Federated Investors

Federated Investors Tower
Pittsburgh, PA 15222-3779

Cusip 338319502
Cusip 338319403
G00278-01 (7/95)

[LOGO] FEDERATED INVESTORS

Strategic
Income
Fund

Semi-Annual Report
May 31, 1995

Established 1994

FIXED INCOME

President's Message

Dear Shareholder:

Strategic Income Fund was established in 1994, and I am pleased to present the 1995 Semi-Annual Report to shareholders.

The report begins with an interview with the fund's principal portfolio manager, Randall S. Bauer, Vice President of Federated Advisers. Following the interview, you will find a series of investment performance charts, a complete listing of the fund's holdings, and its Financial Statements.

I am pleased to report that the fund's net asset value increased over the reporting period. From December 1, 1994, to May 31, 1995, the net asset value for the Class A Shares, Class C Shares and Fortress Shares has increased from \$9.54 to \$9.99. The fund paid monthly dividends for the six-month period totalling \$0.42 per share for Class A Shares, \$0.39 per share for Class C Shares and \$0.40 per share for Fortress Shares.*

The total returns over the period were 4.49% for Class A Shares, 7.93% for Class C Shares and 6.95% for Fortress Shares.*

The fund seeks high monthly income for shareholders and invests in three distinct bond markets, each with its own potential benefit: high-yield U.S. corporate bonds for high yield, high quality international bonds for current income and portfolio diversification, and U.S. government bonds for relative safety and liquidity. This diversification across multiple fixed income sectors gives management more opportunities to enhance yield and reduce risk, while not overexposing fund assets in any single bond market.

Reflecting investors' confidence, the fund's net assets have grown to

\$8,906,768.

We are pleased to inform you of the fund's positive performance, and we look forward to communicating with you about future developments. I encourage you to add to your investment in the fund. By reinvesting dividends, you can increase your share balance on which future dividends will be paid.

As always, we invite your comments and suggestions.

Sincerely,

Richard B. Fisher
President
July 14, 1995

* Past performance does not guarantee future results. Investment return and principal value will fluctuate, so that an investors shares, when redeemed, may be worth more or less than their original cost.

Investment Review

[INSERT PHOTO HERE]

Randall S. Bauer
Vice President,
Federated Advisers

Q What should an investor expect from Strategic Income Fund?

A The fund attempts to optimize the risk/return trade-off available to the bond income fund investor by investing in a portfolio that is diversified across several bond sectors. We do not make any large bets in any single sector, but we will be overweight in a sector that is, allow it to represent more than one-third of the fund's portfolio if we feel it offers current value.

Q What were the factors that affected fund performance during the first half of the fiscal year?

A Probably the single biggest factor was the rally in the U.S. bond market, which began around the beginning of the fund's fiscal year on December 1, 1994. Since then, bond prices have risen significantly as the yield on the ten-year U.S. Treasury bond has declined by nearly 200 basis points. This has accounted for much of the fund's favorable performance.

Secondly, the U.S. dollar declined substantially in value against major foreign currencies, particularly the German Mark and Japanese Yen. This meant that the foreign bonds the fund owned that were denominated in these currencies increased in value.

Thirdly, our decision, beginning in mid-February, to overweight in highgrade U.S. assets (Treasurys and mortgage backed securities) while underweighting high-yield assets, has also helped performance. On the negative side, the turmoil in emerging markets beginning in December, 1994, had some effect, but with the fund's exposure to emerging markets at less than 5% of total holdings at that time, the downside was limited.

Q Please give us an overview of the fund's holdings. What sectors do you favor now?

A We are overweight in U.S. government securities: They represent 39% of the portfolio, making them the largest segment.

Q Government securities represent a very broad sector. Which types of those securities is the fund holding?

A We have a blend of Treasury bonds and mortgage-backed securities. We have been increasing our holdings of Treasurys over the past few months because we believe they will benefit to a greater degree from a decline in the general level of interest rates than will mortgages. With U.S. economic activity past its peak (at least in our opinion), we believe the trend in U.S. interest rates will continue downward. This decline over the next few years may make these types of securities a wise investment.

Q Where is the fund "treading lightly," so to speak?

A We are underweighted in U.S. corporate high-yield securities at 27% of the portfolio. This is because, as the economic cycle turns down, we expect credit-sensitive issues such as high yield bonds to underperform

government bonds.

Q What about the fund's international holdings and your outlook for that sector?

A At 34% of the portfolio, we are slightly overweighted in inter- national securities. This may allow us to take advantage of the current weakness of the U.S. dollar, a healthier outlook for European government markets, and the improving picture for emerging markets, which now represent about 7% of the portfolio.

Q What is the fund's portfolio breakdown?

A The Strategic Income Fund's portfolio breakdown as of May 31, 1995:

International Bonds_34.34% U.S.
Government/Agency Bonds_31.07%
U.S. Corporate Bonds_26.55%
Repurchase Agreements_7.90%
Other_.14%

Q What is the outlook going forward?

A We see value in the U.S. high-grade bond market, so we are likely to remain overweighted in that sector for some time. There will be occasional backups in yields as the market "gets ahead of itself" from time to time, but it appears as though the fundamentals do indeed point to lower yields over the intermediate term.

In the foreign sector, even though the dollar has sold off substantially against other major currencies, the intermediate term outlook does not favor any strong reversal of the trend. The U.S. declining proportion of Gross Domestic Product as a percentage of the global total indicates stronger demand for currencies other than our own. In addition, our inability to come to grips with our chronic twin fiscal and trade deficits continues to whittle away at the long-term equilibrium value of the dollar. We will, therefore, continue an overweight of our non-U.S. position.

The accelerating economic downturn is likely to generate weaker performances from high yield companies, which will broaden the yield spread between high yield and investment grade issues. Should these spreads increase past historic norms without valid reasons, we might increase our high yield holdings to take advantage of it. Except for those instances, we expect to remain underweight in high yields for some time.

Strategic Income Fund_
Portfolio Update

Please see appendix C

Strategic Income Fund
Portfolio of Investments

May 31, 1995 (unaudited)

<TABLE>

<CAPTION>

PRINCIPAL
AMOUNT

| <C> | <S> | VALUE <C> |
|-----------------------------|--|--------------|
| ----- | | |
| U.S. CORPORATE BONDS--27.9% | | |
| ----- | | |
| | AUTOMOTIVE--0.6% | |
| | ----- | |
| \$ 50,000 | Exide Corp., Sr. Note, 10.00%, 4/15/2005 | \$ 51,250 |
| | ----- | |
| | BANKING--1.2% | |
| | ----- | |
| 100,000 | First Nationwide Holdings, Inc., Sr. Note, 12.25%, 5/15/2001 | 107,500 |
| | ----- | |
| | BROADCAST RADIO & TV--1.2% | |
| | ----- | |
| 100,000 | SCI Television, Inc., Sr. Secd. Note, 11.00%, 6/30/2005 | 105,750 |
| | ----- | |
| | CABLE TELEVISION--2.7% | |
| | ----- | |
| 100,000 | Australis Media Limited, Unit, 0/14.00%, 5/15/2003 | 51,250 |
| | ----- | |
| 50,000 | Continental Cablevision, Sr. Deb., 9.50%, 8/1/2013 | 50,875 |
| | ----- | |

| | | |
|---------|--|---------|
| 100,000 | International Cabletel, Inc., Sr. Defd. Cpn. Note, 0/12.75%, 4/15/2005 | 57,250 |
| 50,000 | Le Groupe Videotron Ltee, Sr. Note, 10.625%, 2/15/2005 | 53,000 |
| 50,000 | Peoples Choice TV Corp., Unit, 0/13.125%, 6/1/2004 | 26,500 |
| | Total | 238,875 |
| | CHEMICALS & PLASTICS--2.8% | |
| 50,000 | Arcadian Partners L.P., Sr. Note, Series B, 10.75%, 5/1/2005 | 52,000 |
| 50,000 | LaRoche Industries, Inc., Sr. Sub. Note, 13.00%, 8/15/2004 | 52,125 |
| 50,000 | (a) Polymer Group, Inc., Sr. Note, 12.75%, 7/15/2002 | 50,375 |
| 100,000 | Uniroyal Technology Corp., Sr. Secd. Note, 11.75%, 6/1/2003 | 91,000 |
| | Total | 245,500 |
| | CONGLOMERATES--1.1% | |
| 100,000 | Sherritt Gordon Ltd., Sr. Note, 9.75%, 4/1/2003 | 100,500 |
| | CONSUMER PRODUCTS--1.1% | |
| 100,000 | Playtex Family Products Corp., Sr. Sub. Note, 9.00%, 12/15/2003 | 95,750 |
| | CONTAINERS & GLASS PRODUCTS--0.6% | |
| 50,000 | Owens-Illinois, Inc., Sr. Sub. Note, 10.50%, 6/15/2002 | 52,250 |
| | COSMETICS & TOILETRIES--0.3% | |
| 25,000 | Revlon Consumer Products Corp. Note 9.375% 4/1/2001 | 24,125 |

</TABLE>

Strategic Income Fund

| <TABLE> | | |
|---------------------------------------|---|-----------|
| <CAPTION> | | |
| PRINCIPAL | | VALUE |
| AMOUNT | | <C> |
| <C> | <S> | |
| U.S. CORPORATE BONDS--CONTINUED | | |
| ECOLOGICAL SERVICES & EQUIPMENT--0.6% | | |
| \$ 50,000 | Mid-American Waste Systems, Inc., Sr. Sub. Note, 12.25%, 2/15/2003 | \$ 51,750 |
| FOOD & DRUG RETAILERS--1.8% | | |
| 50,000 | (e) (f) Grand Union Co., Sr. Sub. Note, 12.25%, 7/15/2002 | 16,125 |
| 50,000 | Pathmark Stores, Inc., Sr. Sub. Note, 9.625%, 5/1/2003 | 98,250 |
| 50,000 | Ralph's Grocery Co., Sr. Note, 10.45%, 6/15/2004 | 50,000 |
| | Total | 164,375 |
| FOOD PRODUCTS--2.3% | | |
| 100,000 | Curtice-Burns Foods, Inc., Sr. Sub. Note, 12.25%, 2/1/2005 | 107,000 |
| 50,000 | Doskocil Cos., Inc., Sr. Sub. Note, 9.75%, 7/15/2000 | 48,750 |
| 50,000 | Specialty Foods Corp., Sr. Sub. Note, 11.25%, 8/15/2003 | 49,750 |
| | Total | 205,500 |
| FOREST PRODUCTS--1.7% | | |
| 50,000 | Repap New Brunswick, 1st Priority Sr. Secd. Note, 9.875%, 7/15/2000 | 50,750 |
| 50,000 | (a) S.D. Warren Co., Sr. Sub. Note, 12.00%, 12/15/2004 | 54,625 |
| 50,000 | Stone Container Corp., Sr. Note, 9.875%, 2/1/2001 | 50,125 |
| | Total | 155,500 |

| HEALTHCARE--1.3% | | |
|-----------------------------------|--|---------|
| 52,813 | AmeriSource Corp., Sr. PIK Deb., 11.25%, 7/15/2005 | 59,283 |
| 50,000 | National Medical Enterprises, Inc., Sr. Sub. Note, 10.125%, 3/1/2005 | 52,937 |
| Total | | 112,220 |
| HOME PRODUCTS & FURNISHINGS--0.4% | | |
| 50,000 | American Standard, Inc., Sr. Sub. Disc. Deb., 0/10.50%, 6/1/2005 | 37,624 |
| MACHINERY & EQUIPMENT--0.6% | | |
| 50,000 | WatersCorp., Sr. Sub. Note, 12.75%, 9/30/2004 | 53,000 |
| OIL & GAS--0.5% | | |
| 50,000 | Falcon Drilling Co., Inc., Sr. Note, 9.75% 1/15/2001 | 48,750 |

</TABLE>

Strategic Income Fund

| <TABLE> <CAPTION> PRINCIPAL AMOUNT OR FOREIGN CURRENCY PAR AMOUNT | | | U.S. DOLLARS VALUE |
|---|---------|--|--------------------------|
| <S> | <S> | | <C> |
| U.S. CORPORATE BONDS--CONTINUED | | | |
| RETAILERS--1.7% | | | |
| \$ | 50,000 | Brylane Capital Corp., Sr. Sub. Note, 10.00%, 9/1/2003 | \$ 48,875 |
| | 100,000 | (a)ICON Health & Fitness, Inc., Sr. Sub Note, 13.00%, 7/15/2002 | 103,000 |
| Total | | | 151,875 |
| STEEL--2.3% | | | |
| | 100,000 | Carbide/Graphite Group, Sr. Note, 11.50%, 9/1/2003 | 107,000 |
| | 50,000 | GS Technologies Operating Co., Inc., Sr. Note, 12.00%, 9/1/2004 | 50,875 |
| | 50,000 | Northwestern Steel & Wire Co., Sr. Note, 9.50%, 6/15/2001 | 46,750 |
| Total | | | 204,625 |
| SURFACE TRANSPORTATION--0.6% | | | |
| | 50,000 | Trans Ocean Container Corp., Sr. Sub. Note, 12.25% 7/1/2004 | 50,750 |
| TELECOMMUNICATIONS & CELLULAR--1.8% | | | |
| | 100,000 | NEXTEL Communications Inc., Sr. Disc. Note, 0/11.50%, 9/1/2003 | 57,500 |
| | 150,000 | PanAmSat Corp., Sr. Sub. Disc. Note, 0/11.375%, 8/1/2003 | 108,000 |
| Total | | | 165,500 |
| UTILITIES--0.7% | | | |
| | 75,000 | California Energy Co., Inc., Sr. Disc. Note, 0/10.25%, 1/15/2004 | 63,375 |
| TOTAL U.S. CORPORATE BONDS (IDENTIFIED COST \$2,402,078) | | | 2,486,344 |

INTERNATIONAL BONDS--36.1%

| AUSTRALIAN DOLLAR--3.1% | | |
|-------------------------|---|--------|
| CORPORATE--1.0% | | |
| 150,000 | News America Holdings, Inc., 8.625%, 2/7/2014 | 89,690 |

</TABLE>

Strategic Income Fund

<TABLE>

<CAPTION>

FOREIGN
CURRENCY
PAR
AMOUNT

U.S.
DOLLARS
VALUE

<C>

<S>

<C>

INTERNATIONAL BONDS--CONTINUED

AUSTRALIAN DOLLAR--CONTINUED

| FOREIGN CURRENCY PAR AMOUNT | DESCRIPTION | U.S. DOLLARS VALUE |
|-----------------------------|--|--------------------|
| SOVEREIGN--1.1% | | |
| 150,000 | Treasury Corp. of Victoria, 8.25%, 10/15/2003 | \$ 102,551 |
| STATE/PROVINCIAL--1.0% | | |
| 100,000 | State Bank of New South Wales, 12.25%, 2/26/2001 | 82,462 |
| TOTAL AUSTRALIAN DOLLAR | | 274,703 |

BELGIAN FRANC--1.7%

| FOREIGN CURRENCY PAR AMOUNT | DESCRIPTION | U.S. DOLLARS VALUE |
|-----------------------------|----------------------------|--------------------|
| SOVEREIGN--1.7% | | |
| 2,000,000 | Belgium, 10.00%, 8/2/2000 | 79,476 |
| 2,000,000 | Belgium, 7.75%, 10/15/2004 | 71,034 |
| TOTAL BELGIAN FRANC | | 150,510 |

CANADIAN DOLLAR--2.5%

| FOREIGN CURRENCY PAR AMOUNT | DESCRIPTION | U.S. DOLLARS VALUE |
|-----------------------------|-----------------------------------|--------------------|
| AGENCY--1.7% | | |
| 200,000 | Ontario Hydro, 9.00%, 6/24/2002 | 152,388 |
| CORPORATE--0.8% | | |
| 100,000 | Sherritt, Inc., 11.00%, 3/31/2004 | 72,375 |
| TOTAL CANADIAN DOLLAR | | 224,763 |

DEUTSCHE MARK--3.7%

| FOREIGN CURRENCY PAR AMOUNT | DESCRIPTION | U.S. DOLLARS VALUE |
|-----------------------------|---|--------------------|
| CORPORATE--1.2% | | |
| 150,000 | Ford Credit Europe, PLC, 6.00%, 3/30/1999 | 106,400 |
| SOVEREIGN--2.5% | | |
| 100,000 | Germany, 8.00%, 7/22/2002 | 77,004 |

</TABLE>

Strategic Income Fund

<TABLE>

<CAPTION>

FOREIGN
CURRENCY
PAR
AMOUNT

U.S.
DOLLARS
VALUE

<C>

<S>

<C>

INTERNATIONAL BONDS--CONTINUED

DEUTSCHE MARK--CONTINUED

| FOREIGN CURRENCY PAR AMOUNT | DESCRIPTION | U.S. DOLLARS VALUE |
|-----------------------------|---------------------------|--------------------|
| SOVEREIGN--CONTINUED | | |
| 200,000 | Germany, 7.375%, 1/3/2005 | \$ 148,560 |
| Total | | 225,564 |
| TOTAL DEUTSCHE MARK | | 331,964 |

DANISH KRONE--2.5%

| SOVEREIGN--2.5% | | |
|--------------------|----------------------------|---------|
| 600,000 | Denmark, 8.00%, 5/15/2003 | 108,661 |
| 600,000 | Denmark, 9.00%, 11/15/1996 | 112,085 |
| TOTAL DANISH KRONE | | 220,746 |

FRENCH FRANC--0.9%

| AGENCY--0.9% | | |
|--------------|---|--------|
| 400,000 | KFW International Finance, 7.00%, 5/12/2000 | 80,369 |

BRITISH POUND--4.3%

| CORPORATE--3.0% | | |
|---------------------|--|---------|
| 100,000 | Abbey National Treasury, 8.00%, 4/2/2003 | 154,240 |
| 70,000 | Daimler-Benz U.K., 10.75%, 5/17/1996 | 114,499 |
| Total | | 268,739 |
| SOVEREIGN--1.3% | | |
| 70,000 | Republic of Iceland, 8.75%, 5/12/2003 | 111,720 |
| TOTAL BRITISH POUND | | 380,459 |

JAPANESE YEN--6.8%

| AGENCY--5.3% | | |
|--------------|--|---------|
| 25,000,000 | Export/Import Bank, 4.375%, 10/1/2003 | 329,025 |
| 10,000,000 | KFW International Finance, 6.00%, 11/29/1999 | 137,814 |
| Total | | 466,839 |

</TABLE>

Strategic Income Fund

| <TABLE> | | |
|--|-----|--------------------------|
| <CAPTION> | | |
| FOREIGN CURRENCY PAR AMOUNT OR PRINCIPAL AMOUNT | | U.S. DOLLARS VALUE |
| <C> | <S> | <C> |

INTERNATIONAL BONDS--CONTINUED

JAPANESE YEN--CONTINUED

| CORPORATE--1.5% | | |
|--------------------|---|------------|
| 10,000,000 | Bank of Tokyo, Cayman Finance, Perpetual Convertible Subordinated Note, 4.25% | \$ 135,894 |
| TOTAL JAPANESE YEN | | 602,733 |

NETHERLANDS GUILDER--1.5%

| SOVEREIGN--1.5% | | |
|-----------------|---|---------|
| 200,000 | Netherlands Government, 7.75%, 3/1/2005 | 135,479 |

NEW ZEALAND DOLLAR--1.6%

| AGENCY--1.6% | | |
|--------------|--|---------|
| 200,000 | Electricity Corp. of New Zealand, 10.00%, 10/15/2001 | 146,513 |

U.S. DOLLAR--7.5%

| SOVEREIGN--7.5% | | |
|-----------------|---|--------|
| 100,000 | Argentina Bocon Pre 4 (2), 4.875%, 9/1/2002 (b) | 64,250 |

| | | |
|-------------------------------|---|-----------|
| 97,000 | Brazel IDU, Deb., 1/1/2001 (b) | 77,721 |
| 250,000 | Republic of Argentina, 5.00%, 3/31/2023 | 124,844 |
| 250,000 | Republic of Argentina, Foreign Gov't Guarantee, 3/31/2023 | 152,500 |
| 500,000 | Republic of Brazil, Foreign Gov't Guarantee, 4.00%, 4/15/2014 | 248,750 |
| | TOTAL U.S. DOLLAR | 668,065 |
| | TOTAL INTERNATIONAL BONDS (IDENTIFIED COST \$2,993,422) | 3,216,304 |
| U.S. GOVERNMENT/AGENCY--32.7% | | |
| AGENCY--31% | | |
| \$ 317,905 | Federal Home Loan Mortgage Corp., Pool C00227, 9.50%, 12/1/2022 | 333,498 |
| 300,000 | Federal Home Loan Mortgage Corp., Pool TBA, 8.00%, 6/30/1995 | 308,058 |

</TABLE>

Strategic Income Fund

| <TABLE> <CAPTION> PRINCIPAL AMOUNT OR SHARES <S> | | | VALUE <C> |
|---|--|----|--------------|
| U.S. GOVERNMENT/AGENCY--CONTINUED | | | |
| AGENCY--CONTINUED | | | |
| \$ 153,472 | Federal National Mortgage Association, Pool TBA, 6.50%, 2/1/2009 | \$ | 151,695 |
| 300,000 | Federal National Mortgage Association, Pool TBA, 8.00%, 6/30/1995 | | 307,122 |
| 495,006 | Government National Mortgage Association, Pool 351468, 7.50%, 3/15/2024 | | 498,402 |
| 190,169 | Government National Mortgage Association, Pool 356579, 8.50%, 6/15/2023 | | 198,012 |
| 180,271 | Government National Mortgage Association, Pool 371837, 8.50%, 6/15/2024 | | 187,705 |
| 143,550 | Government National Mortgage Association, Pool 403933, 8.50%, 8/15/2024 | | 149,470 |
| 587,116 | Government National Mortgage Association, Pool 401272, 9.50%, 2/15/2025 | | 620,136 |
| | Total | | 2,754,098 |
| TREASURY--1.7% | | | |
| 140,000 | United States Treasury Note, 7.875%, 11/15/2004 | | 155,207 |
| | TOTAL U.S. GOVERNMENT/AGENCY (IDENTIFIED COST \$2,839,766) | | 2,909,305 |
| COMMON STOCKS--0.0% | | | |
| CHEMICAL & PLASTICS--0.00% | | | |
| 1,000 | Uniroyal Technology Corp., Warrants | | 2,375 |
| RETAILERS--0.00% | | | |
| 100 | (a) ICON Health & Fitness, Inc., Warrants | | 2,000 |
| | TOTAL COMMON STOCK (IDENTIFIED COST \$1,494) | | 4,375 |
| CURRENCY OPTIONS--0.1% | | | |
| 4 | Japanese Yen, Sept. 1995 Future, Strike Price 116, PUT (IDENTIFIED COST, \$9,300) | | 8,550 |
| (C) REPURCHASE AGREEMENTS--8.3% | | | |

</TABLE>

Strategic Income Fund

| <TABLE> <CAPTION> PRINCIPAL AMOUNT | | | VALUE |
|---|--|--|--------------|
| <S> | <S> | | <C> |
| (C) REPURCHASE AGREEMENTS--CONTINUED | | | |
| \$ 140,000 | J.P. Morgan & Co., Inc., 6.17% dated 5/31/1995, due 6/1/1995 | | \$ 140,000 |
| 300,000 | Merrill Lynch, Pierce, Fenner and Smith, 5.96%, dated 5/31/1995, due 6/8/1995 | | 300,000 |
| TOTAL REPURCHASE AGREEMENTS (AT AMORTIZED COST) | | | 740,000 |
| TOTAL INVESTMENTS (IDENTIFIED COST \$8,986,060) (D) | | | \$ 9,364,878 |

</TABLE>

- (a) Restricted Securities--Investment in securities not registered under the Securities Act of 1933. At the end of the period, these securities amounted to 2.4% of net assets.
- (b) Denotes Variable Rate and Floating Rate Obligations for which the current rate is shown.
- (c) The repurchase agreements are fully collateralized by U.S. government and/or agency obligations based on market prices at the date of the portfolio. The investment in the repurchase agreements are through participation in a joint account with other Federated Funds.
- (d) The cost of investments for federal tax purposes amounts to \$8,986,060. The net unrealized appreciation on a federal tax cost basis amounts to \$378,818 and is comprised of \$468,718 appreciation and \$89,900 depreciation at May 31, 1995.
- (e) Non-income producing.
- (f) On May 31, 1995, the Grand Union Company's plan of reorganization was confirmed by the U.S. Bankruptcy Court. The distribution of new securities in exchange for the Fund's notes is pending.

The following acronyms are used in this portfolio:

PIK--Payment in kind
 PLC--Public Limited Company

Note: The categories of investments are shown as a percentage of net assets (\$8,906,768) at May 31, 1995.

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

Strategic Income Fund
 Statement of Assets and Liabilities

May 31, 1995 (unaudited)

| <TABLE> <S> | <C> | <C> |
|--|-----|-------------|
| ASSETS: | | |
| Investments in securities, at value (identified and tax cost; \$8,986,060) | | \$9,364,878 |
| Cash | | 16,374 |
| Income receivable | | 143,166 |
| Receivable for investments sold | | 126,232 |
| Receivable for foreign currency sold | | 84,212 |
| Receivable for shares sold | | 61,897 |

| | | |
|---|------------|-------------|
| Deferred expenses | | 28,976 |
| Total assets | | 9,825,735 |
| LIABILITIES: | | |
| Payable for funds borrowed | \$ 611,403 | |
| Payable for investments purchased | 188,296 | |
| Payable for currency purchased | 83,920 | |
| Income distribution payable | 32,940 | |
| Payable for shares redeemed | 816 | |
| Accrued expenses | 1,592 | |
| Total liabilities | | 918,967 |
| NET ASSETS for 891,788 shares outstanding | | \$8,906,768 |
| NET ASSETS CONSIST OF: | | |
| Paid-in-capital | | \$8,708,041 |
| Net unrealized appreciation (depreciation) of investments and translation of assets and liabilities in foreign currencies | | 379,771 |
| Accumulated distributions in excess of net investment income | | (14,004) |
| Accumulated net realized gain (loss) on investments and foreign currency transactions | | (167,040) |
| Total Net Assets | | \$8,906,768 |
| CLASS C SHARES: | | |
| Net Asset Value Per Share (\$1,992,353 / 199,452 shares outstanding) | | \$9.99 |
| Offering Price Per Share | | \$9.99 |
| Redemption Proceeds Per Share (99/100 of \$9.99)** | | \$9.89 |
| CLASS A SHARES: | | |
| Net Asset Value Per Share (\$3,572,190 / 357,725 shares outstanding) | | \$9.99 |
| Offering Price Per Share (100/95.5 of \$9.99)* | | \$10.46 |
| Redemption Proceeds Per Share | | \$9.99 |
| FORTRESS SHARES: | | |
| Net Asset Value Per Share (\$3,342,225 / 334,611 shares outstanding) | | \$9.99 |
| Offering Price Per Share (100/99 of \$9.99)* | | \$10.09 |
| Redemption Proceeds Per Share (99/100 of \$9.99)** | | \$9.89 |

</TABLE>

*See "What Shares Cost" in the prospectus.

**See "Contingent Deferred Sales Charge" in the prospectus.

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

Strategic Income Fund
Statement of Operations

Six months ended May 31, 1995 (unaudited)

| | | | |
|---|-----|-----|------------|
| <TABLE> | | | |
| <S> | <C> | <C> | <C> |
| INVESTMENT INCOME: | | | |
| Interest (net of foreign taxes withheld of \$810 and interest expense of \$8,691) | | | \$ 332,897 |
| EXPENSES: | | | |
| Investment advisory fee | | \$ | 30,853 |
| Administrative personnel and services fee | | | 92,247 |

| | | | |
|---|-----------|---------|------------|
| Custodian and portfolio accounting fees | | 14,938 | |
| Transfer agent and dividend disbursing agent fees and expenses | | 22,565 | |
| Printing and postage | | 14,910 | |
| Legal fees | | 1,322 | |
| Shareholder services fee--Class A Shares | | 3,504 | |
| Shareholder services fee--Class C Shares | | 1,991 | |
| Shareholder services fee--Fortress Shares | | 3,580 | |
| Distribution services fee--Class C Shares | | 5,973 | |
| Distribution services fee--Fortress Shares | | 7,159 | |
| Share registration costs | | 15,448 | |
| Taxes | | 84 | |
| Insurance premiums | | 2,758 | |
| Directors'/Trustees' Fees | | 1,246 | |
| Auditing fees | | 5,010 | |
| Miscellaneous | | 11,282 | |
| Total expenses | | 234,870 | |
| Deduct-- | | | |
| Waiver of investment advisory fee | \$ 30,853 | | |
| Reimbursement of other operating expenses by Adviser | 181,810 | 212,663 | |
| Net expenses | | | 22,207 |
| Net investment income | | | 310,690 |
| REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY: | | | |
| Net realized gain (loss) on investments and foreign currency transactions | | | (146,073) |
| Net change in unrealized appreciation (depreciation) of investments and translation of assets and liabilities in foreign currencies | | | 528,741 |
| Net realized and unrealized gain (loss) on investments and foreign currency | | | 382,668 |
| Change in net assets resulting from operations | | | \$ 693,358 |

</TABLE>

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

Strategic Income Fund
Statement of Changes in Net Assets

<TABLE>

<CAPTION>

| | SIX MONTHS ENDED MAY 31, 1995 (UNAUDITED) | YEAR ENDED NOVEMBER 30, 1994* |
|---|---|-------------------------------------|
| | <C> | <C> |
| <S> INCREASE (DECREASE) IN NET ASSETS: | | |
| OPERATIONS-- | | |
| Net investment income | \$ 310,690 | \$ 146,412 |
| Net realized gain (loss) on investments and foreign currency transactions (\$146,073 net loss and \$13,691 net loss, respectively, as computed for federal income tax purposes) | (146,073) | (27,206) |
| Net change in unrealized appreciation (depreciation) of investments and translation of assets and liabilities in foreign currencies | 528,741 | (148,970) |

| | | |
|---|--------------|--------------|
| Change in net assets resulting from operations | 693,358 | (29,764) |
| DISTRIBUTIONS TO SHAREHOLDERS-- | | |
| Distributions from net investment income: | | |
| Class A Shares | (124,171) | (67,293) |
| Fortress Shares | (120,411) | (46,354) |
| Class C Shares | (65,279) | (26,526) |
| Distributions in excess of net investment income | | |
| Class A Shares | -- | (5,083) |
| Fortress Shares | -- | (6,411) |
| Class C Shares | (370) | (2,969) |
| Change in net assets from distributions to shareholders | (310,231) | (154,636) |
| SHARES TRANSACTIONS-- | | |
| Proceeds from sale of Shares | 3,374,070 | 7,743,495 |
| Net asset value of Shares issued to shareholders in payment of distributions declared | 129,859 | 64,166 |
| Cost of Shares redeemed | (862,263) | (1,741,286) |
| Change in net assets resulting from share transactions | 2,641,666 | 6,066,375 |
| Change in net assets | 3,024,793 | 5,881,975 |
| NET ASSETS: | | |
| Beginning of period | 5,881,975 | -- |
| End of period | \$ 8,906,768 | \$ 5,881,975 |

</TABLE>

*For the period from April 29, 1994 (date of initial public investment) to November 30, 1994.

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

Strategic Income Fund
Financial Highlights--Class C Shares

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

| | SIX MONTHS ENDED MAY 31, 1995 (UNAUDITED) | YEAR ENDED NOVEMBER 30, 1994 (A) |
|---|---|-------------------------------------|
| <S> | <C> | <C> |
| NET ASSET VALUE, BEGINNING OF PERIOD | \$ 9.54 | \$ 10.00 |
| INCOME FROM INVESTMENT OPERATIONS | | |
| Net investment income | 0.41 | 0.40 |
| Net realized and unrealized gain (loss) on investments and foreign currency transactions | 0.43 | (0.44) |
| Total from investment operations | 0.84 | (0.04) |
| LESS DISTRIBUTIONS | | |
| Distributions from net investment income | (0.39) | (0.40) |
| Distributions in excess of net investment income (b) | -- | (0.02) |
| Total distributions | (0.39) | (0.42) |
| NET ASSET VALUE, END OF PERIOD | \$ 9.99 | \$ 9.54 |
| TOTAL RETURN (C) | 9.02% | (0.41%) |
| RATIOS TO AVERAGE NET ASSETS | | |

| | | |
|---|-----------|-----------|
| Expenses | 1.00% (e) | 1.00% (e) |
| Net investment income | 8.20% (e) | 7.99% (e) |
| Expense waiver/reimbursement (d) | 5.86% (e) | 8.87% (e) |
| SUPPLEMENTAL DATA | | |
| Net assets, end of period (000 omitted) | \$1,992 | \$1,190 |
| Portfolio turnover | 50 % | 34 % |

</TABLE>

(a) For the period from April 29, 1994 (date of initial public investment) to November 30, 1994.

(b) 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.

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

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

(e) Computed on an annualized basis.

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

Strategic Income Fund
Financial Highlights--Class A Shares

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

<TABLE>
<CAPTION>

| | SIX MONTHS ENDED MAY 31, 1995 (UNAUDITED) | YEAR ENDED NOVEMBER 30, 1994 (A) |
|---|---|-------------------------------------|
| <S> | <C> | <C> |
| NET ASSET VALUE, BEGINNING OF PERIOD | \$ 9.54 | \$ 10.00 |
| INCOME FROM INVESTMENT OPERATIONS | | |
| Net investment income | 0.45 | 0.45 |
| Net realized and unrealized gain (loss) on investments and foreign currency transactions | 0.42 | (0.45) |
| Total from investment operations | 0.87 | 0.00 |
| LESS DISTRIBUTIONS | | |
| Distributions from net investment income | (0.42) | (0.45) |
| Distributions in excess of net investment income (b) | -- | (0.01) |
| Total distributions | (0.42) | (0.46) |
| NET ASSET VALUE, END OF PERIOD | \$ 9.99 | \$ 9.54 |
| TOTAL RETURN (C) | 9.42% | 0.05% |
| RATIOS TO AVERAGE NET ASSETS | | |
| Expenses | 0.25% (e) | 0.25% (e) |
| Net investment income | 8.91% (e) | 8.38% (e) |
| Expense waiver/reimbursement (d) | 5.86% (e) | 8.87% (e) |
| SUPPLEMENTAL DATA | | |
| Net assets, end of period (000 omitted) | \$3,572 | \$2,366 |
| Portfolio turnover | 50 % | 34 % |

</TABLE>

- (a) For the period from May 3, 1994 (date of initial public offering) to November 30, 1994.
- (b) 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.
- (c) Based on net asset value, which does not reflect the sales load or contingent deferred sales charge, if applicable.
- (d) This voluntary expense decrease is reflected in both the expense and net investment income ratios shown above.
- (e) Computed on an annualized basis.

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

Strategic Income Fund
Financial Highlights--Fortress Shares

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

<TABLE>
<CAPTION>

| | SIX MONTHS ENDED MAY 31, 1995 (UNAUDITED) | YEAR ENDED NOVEMBER 30, 1994 (A) |
|---|---|-------------------------------------|
| <S> | <C> | <C> |
| NET ASSET VALUE, BEGINNING OF PERIOD | \$ 9.54 | \$ 10.00 |
| INCOME FROM INVESTMENT OPERATIONS | | |
| Net investment income | 0.42 | 0.41 |
| Net realized and unrealized gain (loss) on investments and foreign currency transactions | 0.43 | (0.44) |
| Total from investment operations | 0.85 | (0.03) |
| LESS DISTRIBUTIONS | | |
| Distributions from net investment income | (0.40) | (0.41) |
| Distributions in excess of net investment income (b) | -- | (0.02) |
| Total distributions | (0.40) | (0.43) |
| NET ASSET VALUE, END OF PERIOD | \$ 9.99 | \$ 9.54 |
| TOTAL RETURN (C) | 9.16% | (0.19%) |
| RATIOS TO AVERAGE NET ASSETS | | |
| Expenses | 0.75% (e) | 0.75% (e) |
| Net investment income | 8.42% (e) | 8.34% (e) |
| Expense waiver/reimbursement (d) | 5.86% (e) | 8.87% (e) |
| SUPPLEMENTAL DATA | | |
| Net assets, end of period (000 omitted) | \$3,342 | \$2,326 |
| Portfolio turnover | 50 % | 34 % |

</TABLE>

- (a) For the period from May 9, 1994 (date of initial public offering) to November 30, 1994.
- (b) 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.
- (c) Based on net asset value, which does not reflect the sales load or contingent deferred sales charge, if applicable.
- (d) This voluntary expense decrease is reflected in both the expense and net investment income ratios shown above.
- (e) Computed on an annualized basis.

Strategic Income Fund
Notes to Financial Statements

May 31, 1995 (unaudited)

(1) ORGANIZATION

Fixed Income Securities, 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 three, diversified portfolios. The financial statements included herein are only those of Strategic Income Fund (the "Fund"). The financial statements of the other portfolios are presented separately. The assets of each portfolio are segregated and a shareholder's interest is limited to the portfolio in which shares are held. The Fund offers three classes of shares; Class A Shares, Class C Shares, and Fortress Shares.

Effective July 26, 1995, the Fund will add a class, Class B Shares.

(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.

INVESTMENT VALUATIONS--Listed equity securities, and other fixed income securities are valued at the last sale price reported on national securities exchanges. Listed corporate bonds, unlisted securities, and short-term securities are generally valued at the price provided by an independent pricing service. Short-term securities with remaining maturities of sixty days or less at the time of purchase may be valued at amortized cost, which approximates fair market value.

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 under repurchase agreement transactions. Additionally, procedures have been established by the Fund to monitor, on a daily basis, the market value of each repurchase agreement's collateral to ensure the value of collateral at least equals the repurchase price to be paid under the repurchase agreement transaction.

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 and/or standards reviewed or established by the Board of Directors (the "Directors"). Risks may arise from the potential inability of counterparties to honor the terms of the repurchase agreement. Accordingly, the Fund could receive less than the repurchase price on the sale of collateral securities.

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

Strategic Income Fund

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

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 income. Accordingly, no provisions for federal tax are necessary. However, federal taxes may be imposed on the Fund upon the disposition of certain investments in passive foreign investment companies. Withholding taxes on foreign dividends have been provided for in accordance with the Fund's understanding of the applicable country's tax rules and rates. At November 30, 1994, the Fund, for federal tax purposes, had a capital loss carryforward of \$13,691, 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 (\$13,691).

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.

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 its 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.

FORWARD COMMITMENTS--The Fund may enter into forward commitments for the delayed delivery of securities or forward foreign currency exchange contracts which are based upon financial indicies at fixed price or exchange rate at a future date. Risks may arise upon entering these contracts and from the potential inability of counterparts to meet the terms of their contracts and from unanticipated movements in security prices or foreign exchange rates. The forward foreign currency exchange contracts are adjusted by the daily exchange rate of the underlying currency and any gains or losses are recorded for financial statement purposes as unrealized until contract settlement date. At May 31, 1995, the Fund had no outstanding forward commitments.

FOREIGN CURRENCY TRANSLATION--The accounting records of the Fund are maintained in U.S. dollars. All assets and liabilities denominated in foreign currencies ("FC") are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars on the date of the valuation. Purchases and sales of securities, income and expenses are translated at the rate of exchange quoted on the respective date that such transactions are recorded. Differences between income and expense amounts recorded and collected or paid are adjusted when reported by the custodian bank. The Fund does not isolate that portion of the results

Strategic Income Fund

of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

Reported net realized foreign exchange gains or losses arise from sales and maturities of short-term securities, sales of FC's, currency gains or losses realized between the trade and settlement dates on the securities transactions, the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books, and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities other than investments in securities at fiscal year end, resulting from changes in the exchange rate.

RESTRICTED SECURITIES--Restricted securities are securities that may only be resold upon registration under Federal securities laws or in transactions exempt from such registration. In some cases, the issuer of restricted securities has agreed to register such securities for resale, at the issuer's expense either upon demand by the Fund or in connection with another registered offering of the securities. Many restricted securities may be resold in the secondary market in transactions exempt from registration. Such restricted securities may be determined to be liquid under criteria established by the Board of Directors. The Fund will not incur any registration costs upon such resales. The Fund's restricted securities are valued at the price provided by dealers in the secondary market or, if no market prices are available, at the fair value as determined by the Fund's pricing committee. Additional information on each restricted security held at May 31, 1995, is as follows:

<TABLE>
<CAPTION>

| <S> | SECURITY | ACQUISITION DATE <C> | ACQUISITION COST <C> |
|-----|------------------------------------|-------------------------|-------------------------|
| | ICON Health & Fitness, Warrants | 11/4/94 | \$ 494 |
| | Polymer Group, Inc. Sr. Note | 8/10/94 | 50,000 |
| | S.D. Warren Company, Sr. Sub. Note | 12/13/94 | 50,000 |
| | ICON Health & Fitness, Inc., Unit | 5/17/95 | 98,277 |

</TABLE>

DOLLAR ROLL TRANSACTIONS--The Fund enters into dollar roll transactions,

with respect to mortgage securities issued by GNMA, FNMA, FHLMC, in which the Fund sells mortgage securities to financial institutions and simultaneously agrees to accept substantially similar (same type, coupon and maturity) securities at a later date at an agreed upon price. Dollar roll transactions are short-term financing arrangements which will not exceed twelve months. The Fund will use the proceeds generated from the transactions to invest in short-term investments which may enhance the Fund's current yield and total return.

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

(3) CAPITAL STOCK

At May 31, 1995, there were 10,000,000,000 shares of \$0.001 par value capital stock authorized for the Corporation. 4,000,000,000 shares have been designated for the Fund. Of these shares, 1,000,000,000 have been designated as Class C Shares, 1,000,000,000 as Class A Shares, and 1,000,000,000 as Fortress Shares. 1,000,000,000 shares have been designated for additional classes not currently offered. Transactions in capital stock were as follows:

<TABLE>

<CAPTION>

| CLASS C SHARES | SIX MONTHS ENDED | | YEAR ENDED | |
|--|------------------|------------|--------------------|--------------|
| | MAY 31, 1995 | | NOVEMBER 30, 1994* | |
| | SHARES | DOLLARS | SHARES | DOLLARS |
| Shares sold | 86,159 | \$ 820,786 | 124,790 | \$ 1,226,296 |
| Shares issued in payment of distributions declared | 4,820 | 46,340 | 1,844 | 17,926 |
| Shares redeemed | (16,168) | (155,062) | (1,993) | (19,338) |
| Net change resulting from Class C share transactions | 74,811 | \$ 712,064 | 124,641 | \$ 1,224,884 |

<CAPTION>

| CLASS A SHARES | SIX MONTHS ENDED | | YEAR ENDED | |
|--|------------------|--------------|---------------------|--------------|
| | MAY 31, 1995 | | NOVEMBER 30, 1994** | |
| | SHARES | DOLLARS | SHARES | DOLLARS |
| Shares sold | 135,688 | \$ 1,312,586 | 410,346 | \$ 4,053,169 |
| Shares issued in payment of distributions declared | 6,177 | 59,358 | 3,091 | 30,074 |
| Shares redeemed | (32,174) | (306,472) | (165,403) | (1,633,770) |
| Net change resulting from Class A share transactions | 109,691 | \$ 1,065,472 | 248,034 | \$ 2,449,473 |

</TABLE>

* For the period from April 29, 1994 (date of initial public investment) to November 30, 1994.

** For the period from May 3, 1994 (date of initial public offering) to November 30, 1994.

Strategic Income Fund

<TABLE>

<CAPTION>

| FORTRESS SHARES | SIX MONTHS ENDED | | YEAR ENDED | |
|---|------------------|--------------|----------------------|--------------|
| | MAY 31, 1995 | | NOVEMBER 30, 1994*** | |
| | SHARES | DOLLARS | SHARES | DOLLARS |
| Shares sold | 129,921 | \$ 1,240,698 | 251,274 | \$ 2,464,030 |
| Shares issued in payment of distributions declared | 2,513 | 24,161 | 1,656 | 16,166 |
| Shares redeemed | (41,588) | (400,729) | (9,165) | (88,178) |
| Net change resulting from Fortress share transactions | 90,846 | \$ 864,130 | 243,765 | \$ 2,392,018 |
| Net change resulting from Fund share transactions | 275,348 | \$ 2,641,666 | 616,440 | \$ 6,066,375 |

</TABLE>

*** For the period from May 9, 1994 (date of initial public offering) to November 30, 1994.

(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 .85 of 1% of the Fund's average daily net assets. The Adviser may voluntarily choose to waive its fee and 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"), under the Administrative Services Agreement, provides the Fund with administrative personnel and services. 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.

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 principal distributor, from the net assets of the Fund to finance activities intended to result in the sale of the Fund's Class C Shares and Fortress Shares. The Plan provides that the Fund may incur distribution expenses up to .75 and .50, respectively, of 1% of the average daily net assets of the Class C Shares and Fortress Shares, respectively, annually, to compensate FSC.

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 daily net assets of the Fund for the period. This fee is to obtain certain personal services for shareholders and to maintain shareholder accounts.

Strategic Income Fund

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

ORGANIZATIONAL EXPENSES--Organizational expenses \$103,466 and start-up administrative services expenses \$46,630 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 April 5, 1994 (date the Fund first became effective). For the period ended May 31, 1995, the Fund paid (\$11,517) and (\$5,192), respectively pursuant to this agreement.

GENERAL--Certain of the Officers and Directors of the Corporation are Officers and Directors or Trustees of the above companies.

(5) INVESTMENT TRANSACTIONS

Purchases and sales of investments, excluding short-term securities, for the period ended May 31, 1995 were as follows:

| Directors | Officers |
|-------------------------|--|
| John F. Donahue | John F. Donahue |
| Thomas G. Bigley | Chairman |
| John T. Conroy, Jr. | Richard B. Fisher |
| William J. Copeland | President |
| James E. Dowd | J. Christopher Donahue |
| Lawrence D. Ellis, M.D. | Executive Vice President |
| Richard B. Fisher | Edward C. Gonzales |
| Edward L. Flaherty, Jr. | Executive Vice President |
| Peter E. Madden | John W. McGonigle |
| Gregor F. Meyer | Executive Vice President and Secretary |
| John E. Murray, Jr. | David M. Taylor |
| Wesley W. Posvar | Treasurer |
| Marjorie P. Smuts | Charles H. Field |
| | Assistant Secretary |

Mutual funds are not bank deposits or obligations, are not guaranteed by any bank, and are not insured or guaranteed by the U.S. government, the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other

government agency. Investment in mutual funds involves investment risk, including possible loss of principal.

This report is authorized for distribution to prospective investors only when preceded or accompanied by the fund's prospectus, which contains facts concerning its objective and policies, management fees, expenses and other information.

[LOGO]
FEDERATED SECURITIES CORP.

Distributor

A Subsidiary of Federated Investors

Federated Investors Tower
Pittsburgh, PA 15222-3779

Cusip 338319700
Cusip 338319809
Cusip 338319882
G00324-01 (7/95)

Fixed Income Securities Appendix

A. The graphic representation here displayed consists of a boxed pie chart in the upper center of the page which shows the percentage of assets and the rating of the securities invested in for Limited Term Fund as of May 31, 1995. The chart also displays the percentage of assets that are invested in Repurchase Agreements. The pie chart is made up of five pieces labeled as follows (going clockwise starting from 12:00 noon): AA 11.51%, A 21.10%, BBB 15.58%, Repurchase Agreements 2.17% and AAA 49.64%.

B. The graphic representation here displayed consists of a boxed pie chart in the upper center of the page which shows the percentage of assets and the ratings of the securities invested in for Limited Term Municipal Fund as of May 31, 1995. The chart also displays the percentage of assets that are invested in securities that are not rated. The pie chart is made up of five pieces labeled as follows (going clockwise starting from 12:00 noon): AA 11.51%, A 21.10%, BBB 15.58%, Repurchase Agreements 2.17% and AAA 49.64%.

C The graphic representation here displayed consists of a boxed pie chart in the upper center of the page which shows the percentage of assets in Strategic Income Fund that are diversified across different types of securities as of May 31, 1995. The pie chart is made up of five pieces labeled as follows (going clockwise starting from 12:00 noon): U.S. Corporate Bonds 26.55%, Repurchase Agreements 7.90%, Other 0.14%, International Bonds 34.34%, U.S. Government/Agency Bonds 31.07%.