

SECURITIES AND EXCHANGE COMMISSION

FORM 497

Definitive materials filed under paragraph (a), (b), (c), (d), (e) or (f) of Securities Act Rule 497

Filing Date: **1994-03-02**
SEC Accession No. **0000906468-94-000003**

([HTML Version](#) on secdatabase.com)

FILER

PLANTERS FUNDS

CIK: **906468** | State of Incorporation: **PA** | Fiscal Year End: **1231**
Type: **497** | Act: **33** | File No.: **033-49701** | Film No.: **94514180**

Business Address
*FEDERATED INVESTORS
TOWER
PITTSBURGH PA 15222-3779
4122881401*

TENNESSEE TAX-FREE BOND FUND
(A PORTFOLIO OF THE PLANTERS FUNDS)
PROSPECTUS

The shares of Tennessee Tax-Free Bond Fund (the "Fund") offered by this prospectus represent interests in a non-diversified portfolio of securities which is an investment portfolio in The Planters Funds (the "Trust"), an open-end management investment company (a mutual fund).

The investment objective of the Fund is to provide current income exempt from federal income tax and personal income taxes imposed by the state of Tennessee and Tennessee municipalities. The Fund invests primarily in a portfolio of municipal securities which are exempt from federal income tax and personal income taxes imposed by the state of Tennessee and Tennessee municipalities ("Tennessee Municipal Securities"). These securities include those issued by or on behalf of the state of Tennessee and Tennessee municipalities as well as those issued by states, territories and possessions of the United States that are not issued by or on behalf of Tennessee and its political subdivisions, but which are exempt from Tennessee state income tax.

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

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

The Fund has also filed a Statement of Additional Information dated February 28, 1994 with the Securities and Exchange Commission. The information contained in the Statement of Additional Information is incorporated by reference into this prospectus. You may request a copy of the Statement of Additional Information free of charge, obtain other information, or make inquiries about the Fund by calling Federated Securities Corp. at 1-800-618-8573.

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

Prospectus dated February 28, 1994

TABLE OF CONTENTS

SUMMARY OF FUND EXPENSES	1
FINANCIAL HIGHLIGHTS	2
GENERAL INFORMATION	3
INVESTMENT INFORMATION	3
Investment Objective	3
Investment Policies	3
Acceptable Investments	3
Characteristics	3
Participation Interests	4
Variable Rate Municipal Securities	4
Municipal Leases	4
Restricted and Illiquid Securities	5
Investing in Securities of Other	
Investment Companies	5
When-Issued and Delayed	
Delivery Transactions	5
Temporary Investments	5
Tennessee Municipal Securities	6
Investment Risks	6
Non-Diversification	6
Investment Limitations	7
THE PLANTERS FUNDS INFORMATION	7

Management of the Trust	7
Board of Trustees	7
Investment Adviser	7
Advisory Fees	7
Adviser's Background	7
Portfolio Managers	8
Distribution of Fund Shares	8
Administrative Arrangements	8
Administration of the Fund	8
Administrative Services	8
Custodian	9
Transfer Agent, Dividend	
Disbursing Agent and	
Portfolio Accounting Services	9
Legal Counsel	9
Independent Auditors	9
Expenses of the Fund	9

NET ASSET VALUE	9
-----------------	---

INVESTING IN THE FUND	9
-----------------------	---

Share Purchases	9
Minimum Investment Required	10
What Shares Cost	10
Purchases at Net Asset Value	10
Dealer Concessions	11
Reducing the Sales Charge	11
Quantity Discounts and Accumulated	
Purchases	11
Letter of Intent	11
Reinvestment Privilege	12
Certificates and Confirmations	12
Dividends and Distributions	12

REDEEMING SHARES	12
------------------	----

By Telephone	12
By Mail	13
Signatures	13
Accounts with Low Balances	13

SHAREHOLDER INFORMATION	14
-------------------------	----

Voting Rights	14
Massachusetts Partnership Law	14

EFFECT OF BANKING LAWS	14
------------------------	----

TAX INFORMATION	15
-----------------	----

Federal Income Tax	15
State of Tennessee Taxes	15
Other State and Local Taxes	16

PERFORMANCE INFORMATION	16
-------------------------	----

FINANCIAL STATEMENTS	17
----------------------	----

ADDRESSES	Inside Back Cover
-----------	-------------------

SUMMARY OF FUND EXPENSES	
--------------------------	--

<TABLE>		<C>
<S>		
	ESTIMATED SHAREHOLDER TRANSACTION EXPENSES	
Maximum Sales Load Imposed on Purchases (as a percentage of offering price).....		4.00%*
Maximum Sales Load Imposed on Reinvested Dividends		
(as a percentage of offering price).....		None
Deferred Sales Load (as a percentage of the lesser of original purchase price		
or redemption proceeds, as applicable).....		None

Redemption Fees (as a percentage of amount redeemed, if applicable).....	None
Exchange Fee.....	None

ANNUAL FUND OPERATING EXPENSES**
(As a percentage of projected average net assets)

Management Fee (after waiver) (1).....	0.13%
12b-1 Fees.....	None
Other Expenses (after waiver and reimbursement) (1).....	0.62%
Total Fund Operating Expenses (2).....	0.75%

</TABLE>

(1) The estimated management fee and other expenses have been reduced to reflect the anticipated voluntary waiver of the investment advisory fee by the investment adviser and of the administrative personnel and services fee by the administrator. The investment adviser and administrator can terminate this voluntary waiver at any time at their sole discretion. The maximum management fee is 0.75%.

(2) Total Fund operating expenses are estimated to be 1.37% absent the anticipated voluntary waivers detailed in Note (1).

* During the period from February 1, 1994, through and including September 30, 1994, the maximum sales load imposed on the purchase of shares of the Fund will be 2.00% of the offering price of the shares purchased.

** Expenses in this table are estimated based on expenses expected to be incurred during the fiscal year ending July 31, 1994. During the course of this period, expenses may be more or less than the average amount shown.

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

<TABLE>
<CAPTION>
EXAMPLE

	1 year <C>	3 years <C>
<S> You would pay the following expenses on a \$1,000 investment assuming (1) 5% annual return; (2) redemption at the end of each time period; and (3) payment of the maximum sales load.....	\$47	\$63

</TABLE>

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

TENNESSEE TAX-FREE BOND FUND
(A PORTFOLIO OF THE PLANTERS FUNDS)
FINANCIAL HIGHLIGHTS

(FOR A SHARE OUTSTANDING THROUGHOUT THE PERIOD)

<TABLE>
<CAPTION>

	YEAR ENDED JULY 31, 1994*
<S> NET ASSET VALUE, BEGINNING OF PERIOD	\$ 10.50
----- INCOME FROM INVESTMENT OPERATIONS	0.19
----- Net investment income	-----
----- Net realized and unrealized gain (loss) on investments	0.30
----- Total from investment operations	0.49
----- LESS DISTRIBUTIONS	-----
----- Dividends to shareholders from net investment income	(0.17)
----- NET ASSET VALUE, END OF PERIOD	\$ 10.82
----- TOTAL RETURN**	4.84%
----- RATIOS TO AVERAGE NET ASSETS	-----
----- Expenses	0.60% (a)
----- Net investment income	4.22% (a)

Expense waiver/reimbursement (b)	0.98% (a)
SUPPLEMENTAL DATA	
Net assets, end of period (000 omitted)	\$39,670
Portfolio turnover rate	14%

</TABLE>

* Reflects operations for the period from August 30, 1993 (date of initial public investment) to January 31, 1994.

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

(a) Computed on an annualized basis.

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

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

GENERAL INFORMATION

The Planters Funds (the "Trust") was established as a Massachusetts business trust under a Declaration of Trust dated May 14, 1993. The Declaration of Trust permits the Trust to offer separate series of shares of beneficial interest representing interests in separate portfolios of securities. The shares in any one portfolio may be offered in separate classes. With respect to this Fund, as of the date of this prospectus, the Trustees have not established separate classes of shares.

Shares of the Fund are designed for customers of financial institutions such as broker/dealers, banks, fiduciaries, and investment advisers as a convenient means of accumulating an interest in a professionally managed, non-diversified portfolio investing primarily in Tennessee Municipal Securities. A minimum initial investment of \$1,000 is required. The Fund is not likely to be a suitable investment for non-Tennessee taxpayers or retirement plans since the Fund invests in Tennessee Municipal Securities.

Except as otherwise noted in this prospectus, shares of the Fund are sold at net asset value plus a sales charge and are redeemed at net asset value.

INVESTMENT INFORMATION

INVESTMENT OBJECTIVE

The investment objective of the Fund is to provide current income exempt from federal income tax and personal income taxes imposed by the state of Tennessee and Tennessee municipalities. The investment objective cannot be changed without approval of a majority of the Fund's shares. While there is no assurance that the Fund will achieve its investment objective, it endeavors to do so by following the investment policies described in this prospectus.

Interest income of the Fund that is exempt from the income tax described above retains its exempt status when distributed to the Fund's shareholders. However, income distributed by the Fund may not necessarily be exempt from state or municipal taxes in states other than Tennessee.

INVESTMENT POLICIES

The Fund pursues its investment objective by investing primarily in a portfolio of Tennessee Municipal Securities. As a matter of investment policy, which may not be changed without shareholder approval, under normal market conditions at least 80% of the Fund's income will be exempt from federal income tax (including alternative minimum tax) and personal income tax imposed by the state of Tennessee and Tennessee municipalities. Unless indicated otherwise, the other investment policies of the Fund described below may be changed by the Trustees without approval of shareholders. Shareholders will be notified before any material changes in these policies become effective.

ACCEPTABLE INVESTMENTS. The Tennessee Municipal Securities in which the Fund invests are:

obligations issued by or on behalf of the state of Tennessee, its political subdivisions, or agencies;

debt obligations of any state, territory, or possession of the United

States, including the District of Columbia or any political subdivision of any of these; and

participation interests, as described below, in any of the above obligations,

the interest from which is, in the opinion of bond counsel for the issuers or in the opinion of officers of the Fund and/or the investment adviser to the Fund, exempt from both federal income tax and the personal income taxes imposed by the state of Tennessee and Tennessee municipalities.

CHARACTERISTICS. The Tennessee Municipal Securities in which the Fund invests are rated "investment grade," i.e., Baa or above by Moody's Investor Service, Inc. ("Moody's") or BBB or above by Standard & Poor's Corporation ("S&P") or Fitch Investors Service, Inc. ("Fitch"). A description of the rating categories is contained in the Appendix to the Statement of Additional Information. In certain cases, the Fund's adviser may choose bonds that are unrated if it judges the bonds to be of comparable quality to one of the foregoing rating categories. Bonds rated "BBB" by S&P or "Baa" by Moody's have speculative characteristics. Changes in economic conditions or other circumstances are more likely to lead to weakened capacity to make principal and interest payments than higher rated bonds. If the Fund purchases an investment grade bond, and the rating of such bond is subsequently downgraded so that the bond is no longer classified as investment grade, the Fund is not required to sell the bond, but will consider whether such action is appropriate. As a matter of investment policy, under normal market conditions, the Fund will invest at least 65% of its assets in bonds.

PARTICIPATION INTERESTS. The Fund may purchase participation interests in Tennessee Municipal Securities from financial institutions such as commercial banks, savings and loan associations and insurance companies. These participation interests may take the form of participations, beneficial interests in a trust, partnership interests or any other form of indirect ownership that allows the Fund to treat the income from the investment as exempt from federal income tax. The financial institutions from which the Fund purchases participation interests frequently provide or secure irrevocable letters of credit or guarantees to assure that the participation interests are of high quality.

VARIABLE RATE MUNICIPAL SECURITIES. Some of the Tennessee Municipal Securities which the Fund purchases may have variable interest rates. Variable interest rates are ordinarily based on a published interest rate or interest rate index. Many variable rate municipal securities are subject to payment of principal on demand by the Fund in not more than seven days. All variable rate municipal securities will meet the quality standards for the Fund. The Fund's investment adviser has been instructed by the Trustees to monitor the pricing, quality, and liquidity of the variable rate municipal securities, including participation interests held by the Fund, on the basis of published financial information and reports of the rating agencies and other analytical services.

MUNICIPAL LEASES. Municipal leases are obligations issued by state and local governments or authorities to finance the acquisition of equipment and facilities and may be considered to be illiquid. They may take the form of a lease, an installment purchase contract, a conditional sales contract or a participation certificate on any of the above. The lease payments and other rights under the lease provide for and secure the payments on the certificates. Lease obligations may be limited by municipal charter or the nature of the appropriation for the lease. In particular, lease obligations may be subject to periodic appropriation. If the entity does not appropriate funds for future lease payments, the entity cannot be compelled to make such payments. Furthermore, a lease may provide that the certificate trustee cannot accelerate lease obligations upon default. The trustee would only be able to enforce lease payments as they become due. In the event of a default or failure of appropriation, it is unlikely that the trustee would be able to obtain an acceptable substitute source of payment.

If the Fund purchases unrated municipal leases, the Trustees will be responsible for determining on an ongoing basis, the credit quality of such leases and the likelihood that a lease will not be cancelled.

RESTRICTED AND ILLIQUID SECURITIES. The Fund may invest in restricted securities. Restricted securities are any securities in which the Fund may otherwise invest pursuant to its investment objective and policies but which are subject to restriction on resale under federal securities laws. To the extent these securities are deemed to be illiquid, the Fund will limit its purchases, together with other securities considered to be illiquid, to 15% of its net assets.

INVESTING IN SECURITIES OF OTHER INVESTMENT COMPANIES. The Fund may invest in the securities of other investment companies, but it will not own more than 3% of the total outstanding voting stock of any investment company, invest more than 5% of its total assets in any one investment company, or invest more than

10% of its total assets in investment companies in general. The Fund will invest in other investment companies primarily for the purpose of investing short-term cash which has not yet been invested in other portfolio instruments. The adviser will waive its investment advisory fee on assets invested in securities of open-end investment companies.

WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS. The Fund may purchase securities on a when-issued or delayed delivery basis. These transactions are arrangements in which the Fund purchases securities with payment and delivery scheduled for a future time. In when-issued and delayed delivery transactions, the Fund relies on the seller to complete the transaction. The seller's failure to complete the transaction may cause the Fund to miss a price or yield considered to be advantageous.

TEMPORARY INVESTMENTS. The Fund normally invests its assets so that at least 80% of its annual interest income is exempt from federal income tax and the personal income taxes imposed by the state of Tennessee and Tennessee municipalities and at least 65% of the value of its total assets will be invested in bonds. From time to time, during periods of other than normal market conditions, the Fund may invest in short-term tax exempt or taxable temporary investments. These temporary investments include: notes issued by or on behalf of municipal or corporate issuers; obligations issued or guaranteed by the U.S. government, its agencies, or instrumentalities; other debt securities; commercial paper; certificates of deposit of banks; and repurchase agreements (arrangements in which the organization selling the Fund a bond or temporary investment agrees at the time of sale to repurchase it at a mutually agreed upon time and price).

The investment adviser will limit temporary investments to those rated within the investment grade categories described under "Acceptable Investments--Characteristics" (if rated) or of comparable quality (if unrated).

Although the Fund is permitted to make taxable, temporary investments, there is no current intention of generating income subject to federal income tax or personal income taxes imposed by the state of Tennessee or Tennessee municipalities.

TENNESSEE MUNICIPAL SECURITIES

Tennessee Municipal Securities are generally issued to finance public works, such as airports, bridges, highways, housing, hospitals, mass transportation projects, schools, streets, and water and sewer works. They are also issued to repay outstanding obligations, to raise funds for general operating expenses, and to make loans to other public institutions and facilities.

Tennessee Municipal Securities include industrial development bonds issued by or on behalf of public authorities to provide financing aid to acquire sites or construct and equip facilities for privately or publicly owned corporations. The availability of this financing encourages these corporations to locate within the sponsoring communities and thereby increases local employment.

The two principal classifications of municipal securities are "general obligation" and "revenue" bonds. General obligation bonds are secured by the issuer's pledge of its full faith and credit and taxing power for the payment of principal and interest. However, interest on and principal of revenue bonds are payable only from the revenue generated by the facility financed by the bond or other specified sources of revenue. Revenue bonds do not represent a pledge of credit or create any debt of or charge against the general revenues of a municipality or public authority. Industrial development bonds are typically classified as revenue bonds.

INVESTMENT RISKS

Yields on municipal securities depend on a variety of factors, including: the general conditions of the short-term municipal bond market and the municipal bond market; the size and maturity of the particular offering; and the rating of the issue. Further, any adverse economic conditions or developments affecting the issuer or its municipalities could impact the Fund's portfolio. The ability of the Fund to achieve its investment objective also depends on the continuing ability of the issuers of Tennessee Municipal Securities and participation interests, or the credit enhancers of either, to meet their obligations for the payment of interest and principal when due.

Investing in municipal securities which meet the Fund's quality standards may not be possible if the issuer or its municipalities do not maintain their current credit ratings. In addition, certain constitutional amendments, legislative measures, executive orders, administrative regulations, and voter initiatives could result in adverse consequences affecting municipal securities.

NON-DIVERSIFICATION

The Fund is a non-diversified investment portfolio. As such, there is no limit

on the percentage of assets which can be invested in any single issuer. An investment in the Fund, therefore, will entail greater risk than investment in a diversified portfolio of securities because the higher percentage of investments among fewer issuers may result in greater fluctuation in the total market value of the Fund's portfolio. Any economic, political, or regulatory developments affecting the value of the securities in the Fund's portfolio will have a greater impact on the total value of the portfolio than would be the case if the portfolio were diversified among more issuers.

The Fund intends to comply with Subchapter M of the Internal Revenue Code. This undertaking requires that at the end of each quarter of the taxable year:

- (a) with regard to at least 50% of the Fund's total assets, no more than 5% of its total assets are invested in the securities of a single issuer; and
- (b) no more than 25% of its total assets are invested in the securities of a single issuer.

INVESTMENT LIMITATIONS

The Fund will not borrow money directly or through reverse repurchase agreements (arrangements in which the Fund sells a portfolio instrument for a percentage of its cash value with an agreement to buy it back on a set date) or pledge securities except, under certain circumstances, the Fund may borrow up to one-third of the value of its total assets and pledge assets as necessary to secure such borrowings.

The above investment limitation cannot be changed without shareholder approval.

THE PLANTERS FUNDS INFORMATION

MANAGEMENT OF THE TRUST

BOARD OF TRUSTEES. The Trust is managed by a Board of Trustees ("Trustees"). The Trustees are responsible for managing the Trust's business affairs and for exercising all the Trust's powers except those reserved for the shareholders. The Executive Committee of the Board of Trustees handles the Board's responsibilities between meetings of the Board.

INVESTMENT ADVISER. Pursuant to an investment advisory contract with the Trust, investment decisions for the Fund are made by Union Planters National Bank ("Union Planters" or the "adviser"), the Fund's adviser, subject to direction by the Trustees. The adviser continually conducts investment research and supervision for the Fund and is responsible for the purchase or sale of portfolio instruments, for which it receives an annual fee from the assets of the Fund.

From time to time, to the extent consistent with the objective, policies and restrictions of the Fund, the Fund may invest in securities of issuers with which the adviser has a lending relationship.

ADVISORY FEES. The adviser receives an investment advisory fee at an annual rate equal to 0.75% of the Fund's average daily net assets. The fee paid by the Fund, while higher than the advisory fees paid by other mutual funds in general, is comparable to fees paid by other mutual funds with similar objectives and policies. The adviser has undertaken to reimburse the Fund, up to the amount of the advisory fee, for operating expenses in excess of limitations established by certain states. The adviser may voluntarily choose to waive a portion of its fee or reimburse the Fund for certain other expenses, but reserves the right to terminate such waiver or reimbursement at any time at its sole discretion.

ADVISER'S BACKGROUND. Founded in 1869, Union Planters, a national banking association, is a wholly-owned subsidiary of Union Planters Corporation (the "Corporation") a multi-bank holding company headquartered in Memphis, Tennessee. Union Planters is a commercial bank offering a wide range of banking services to its customers. The adviser has been managing trust assets for over 80 years. As of December 31, 1992, the Trust Group of Union Planters had approximately \$900 million under administration, of which it had investment discretion over approximately \$490 million. The adviser has served as investment adviser to the Fund since its inception.

PORTFOLIO MANAGERS. The following individuals are primarily responsible for the day-to-day management of the Fund's portfolio:

Robert G. L. Eason, Vice President and Senior Fixed Income Portfolio Manager of Union Planters since 1989. From 1983-1989, Mr. Eason was Portfolio Manager at First Tennessee National Bank.

P. Thomas Dorian, Senior Vice President of Union Planters since 1989. From 1987-1989, Mr. Dorian was Vice President of Union Planters. Mr. Dorian has been a Chartered Financial Analyst since 1985.

DISTRIBUTION OF FUND SHARES

Federated Securities Corp. ("FSC") is the principal distributor for shares of the Fund. FSC is a Pennsylvania corporation organized on November 14, 1969, and is the principal distributor for a number of investment companies. FSC is a subsidiary of Federated Investors.

ADMINISTRATIVE ARRANGEMENTS. The distributor may pay financial institutions such as banks, fiduciaries, custodians for public funds, investment advisers and broker-dealers a fee based upon the average net asset value of shares of their customers invested in the Fund for providing administrative services. Administrative services may include, but are not limited to, the following functions: providing office space, equipment, telephone facilities, and various personnel including clerical, supervisory, and computer as necessary or beneficial to establish and maintain shareholder accounts and records; processing purchase and redemption transactions and automatic investments of client account cash balances; answering routine client inquiries regarding the Funds; assisting clients in changing dividend options, account designations, and addresses; and providing such other services as the Fund reasonably requests. This fee, if paid, will be reimbursed by the adviser and not the Fund.

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

ADMINISTRATION OF THE FUND

ADMINISTRATIVE SERVICES. Federated Administrative Services ("FAS"), Pittsburgh, Pennsylvania, a subsidiary of Federated Investors, provides the Fund with certain administrative personnel and services necessary to operate the Fund, such as legal and accounting services. FAS provides these at an annual rate as specified below:

<TABLE>
<CAPTION>

MAXIMUM ADMINISTRATIVE FEE	AVERAGE AGGREGATE DAILY NET ASSETS OF THE TRUST
<C>	<S>
.150 of 1%	on the first \$250 million
.125 of 1%	on the next \$250 million
.100 of 1%	on the next \$250 million
.075 of 1%	on assets in excess of \$750 million

</TABLE>

The administrative fee received during any fiscal year shall be at least \$120,000 per Fund. FAS may voluntarily choose to waive a portion of its fee.

CUSTODIAN. State Street Bank and Trust Company, Boston, Massachusetts ("State Street"), is custodian for the securities and cash of the Fund.

TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND PORTFOLIO ACCOUNTING SERVICES. Federated Services Company, Pittsburgh, Pennsylvania, a subsidiary of Federated Investors, is transfer agent and dividend disbursing agent for the Fund. It also provides certain accounting and recordkeeping services with respect to the Fund's portfolio investments.

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

INDEPENDENT AUDITORS. The independent auditors for the Fund are Price Waterhouse, Boston, Massachusetts.

EXPENSES OF THE FUND

The Fund pays all of its own expenses and its allocable share of Trust expenses. The expenses borne by the Fund include, but are not limited to, the costs of: organizing the Trust and continuing its existence; Trustees' fees; investment advisory and administrative services; printing prospectuses and other Fund documents for shareholders; registering the Trust, the Fund and shares of the Fund; taxes and commissions; issuing, purchasing, repurchasing, and redeeming shares; fees for custodian, transfer agent, dividend disbursing agent, shareholder servicing agents, and registrars; printing, mailing, auditing, accounting, and legal expenses; reports to shareholders and government agencies; meetings of Trustees and shareholders and proxy solicitations therefor; insurance premiums; association membership dues; and such nonrecurring and extraordinary items as may arise.

NET ASSET VALUE

The Fund's net asset value per share fluctuates. It is determined by dividing

the sum of the market value of all securities and all other assets, less liabilities, by the number of shares outstanding.

INVESTING IN THE FUND

SHARE PURCHASES

Shares are sold on days on which the New York Stock Exchange and the Federal Reserve Wire System are open for business. An individual investor can purchase shares of the Fund by telephoning Union Planters Brokerage Services at 1-800-238-7125 or by calling his financial institution (such as a bank or an investment dealer). Orders through a financial institution are considered received when the Fund is notified of the purchase order. Purchase orders through a registered broker/dealer must be received by the broker before 4:00 p.m. (Eastern time) and must be transmitted by the broker to the Fund before 5:00 p.m. (Eastern time) in order for shares to be purchased at that day's price. Purchase orders through other financial institutions must be received by the financial institution and transmitted to the Fund before 4:00 p.m. (Eastern time) in order for shares to be purchased at that day's price. It is the financial institution's responsibility to transmit orders promptly.

Financial institutions and investment advisers can purchase shares through FSC by calling 1-800-618-8573, such purchase orders must be received by FSC before 4:00 p.m. (Eastern time) in order for shares to be purchased at that day's public offering price. Texas residents must purchase shares of the Fund through FSC at 1-800-618-8573. In connection with the sale of shares, the distributor may, from time to time, offer certain items of nominal value to any shareholder or investor. The Fund reserves the right to reject any purchase request.

Payment may be made by either check or federal funds. Payments should be made to your financial institution, broker/dealer or FSC, as appropriate. It is the Fund's policy to be as fully invested as possible so that maximum interest may be earned. To this end, all payments from shareholders must be in federal funds or be converted into federal funds before shareholders begin to earn dividends.

MINIMUM INVESTMENT REQUIRED

The minimum initial investment in the Fund is \$1,000. Subsequent investments must be in amounts of at least \$100.

WHAT SHARES COST

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

<TABLE>

<CAPTION>

AMOUNT OF TRANSACTION	SALES CHARGE AS A PERCENTAGE OF PUBLIC OFFERING PRICE	SALES CHARGE AS A PERCENTAGE OF NET AMOUNT INVESTED
<S>	<C>	<C>
Less than \$50,000	4.00%	4.17%
\$50,000 but less than \$100,000	3.50%	3.63%
\$100,000 but less than \$250,000	3.00%	3.09%
\$250,000 but less than \$500,000	2.00%	2.04%
\$500,000 but less than \$750,000	1.50%	1.52%
\$750,000 but less than \$1,000,000	1.00%	1.01%
\$1 million or more	0.00%	

</TABLE>

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

During the period from February 1, 1994, through and including September 30, 1994, the maximum sales charge imposed on the purchase of shares of the Fund will be 2.00% of the offering price of the shares purchased.

PURCHASES AT NET ASSET VALUE. Shares of the Fund may be purchased at net asset value, without a sales charge, by Trust customers of Union Planters and employees and retired employees of Union Planters and its affiliates and their spouses and children under 21.

No sales charge is imposed for shares purchased through bank trust departments, investment advisers registered under the Investment Advisers Act of 1940, insurance companies and credit unions. However, investors who purchase shares

through a trust department or investment adviser may be charged an additional service fee by that institution.

DEALER CONCESSIONS. For sales of shares of the Fund, a dealer will normally receive up to 85% of the applicable sales charge. Any portion of the sales charge which is not paid to a dealer will be retained by the distributor. However, the distributor, in its sole discretion, may uniformly offer to pay to all dealers selling shares of the Fund, all or a portion of the sales charge it normally retains. If accepted by the dealer, such additional payments will be predicated upon the amount of Fund shares sold.

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

REDUCING THE SALES CHARGE

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

quantity discounts and accumulated purchases;

signing a 13-month letter of intent; or

using the reinvestment privilege.

QUANTITY DISCOUNTS AND ACCUMULATED PURCHASES. As shown in the table on the previous page, larger purchases reduce the sales charge paid. The Fund will combine purchases of shares made on the same day by the investor, his spouse, and his children under age 21 when it calculates the sales charge.

If an additional purchase of shares is made, the Fund will consider the previous purchases still invested in the Fund. For example, if a shareholder already owns shares having a current value at the public offering price of \$40,000 and purchases \$10,000 more at the current public offering price, the sales charge on the additional purchase according to the schedule now in effect would be 3.50%, not 4.00%.

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

LETTER OF INTENT. If a shareholder intends to purchase at least \$100,000 of shares in the Fund over the next 13 months, the sales charge may be reduced by signing a letter of intent to that effect. This letter of intent includes a provision for a sales charge adjustment depending on the amount actually purchased within the 13-month period and a provision for the custodian to hold up to 4.00% of the total amount intended to be purchased in escrow (in shares) until such purchase is completed.

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

This letter of intent will not obligate the shareholder to purchase shares, but if he does, each purchase during the period will be at the sales charge applicable to the total amount intended to be purchased.

This letter may be dated as of a prior date to include any purchases made within the past 90 days towards the dollar fulfillment of the letter of intent. Prior trade prices will not be adjusted.

REINVESTMENT PRIVILEGE. If shares in the Fund have been redeemed, the shareholder has a one-time right, within 30 days, to reinvest the redemption proceeds at the next-determined net asset value without any sales charge. Federated Securities Corp. must be notified by the shareholder in writing or by the shareholder's financial institution of the reinvestment in order to eliminate a sales charge. If the shareholder redeems shares in the Fund, there may be tax consequences, and exercise of the reinvestment privilege may result in additional tax considerations. Shareholders contemplating such transactions should consult their own tax advisers.

CERTIFICATES AND CONFIRMATIONS

As transfer agent for the Fund, Federated Services Company maintains a share account for each shareholder of record. Share certificates are not issued unless requested by contacting your financial institution, broker/dealer or FSC, as appropriate.

Detailed statements that include account balances, information on each purchase

or redemption, and a report of dividends are sent to each shareholder.

DIVIDENDS AND DISTRIBUTIONS

Dividends are declared and paid monthly to all shareholders invested in the Fund on the record date.

Dividends are declared just prior to determining net asset value. Capital gains realized by the Fund, if any, will be distributed at least once every 12 months. Dividends and capital gains will be reinvested in additional shares on payment dates at the ex-dividend date's net asset value without a sales charge, unless cash payments are requested by writing to your financial institution, broker/dealer or FSC, as appropriate.

REDEEMING SHARES

The Fund redeems shares at their net asset value next determined after the Fund receives the redemption request. Redemptions will be made on days on which the Fund computes its net asset value. Telephone or written requests for redemption must be received in proper form.

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

For orders received before 4:00 p.m. (Eastern time), proceeds will normally be wired the next day to the shareholder's account as instructed on the shareholder's authorization form or a check will be sent to the address of record. Proceeds delivered in the form of a check will be sent within seven days after a proper request for redemption has been received, provided the transfer agent has received the purchase price for the shares from the shareholder. Before a financial institution may request redemption by telephone on behalf of a shareholder, an authorization form permitting the Fund to accept redemption requests by telephone must be completed.

Telephone redemption instructions may be recorded. If reasonable procedures are not followed by the Fund, it may be liable for losses due to unauthorized or fraudulent telephone instructions.

In the event of drastic economic or market changes, a shareholder may experience difficulty in redeeming by telephone. If such a case should occur, it is recommended that a redemption request be made in writing and be hand delivered or sent by overnight mail to FSC. If, at any time, the Fund should determine it necessary to terminate or modify this method of redemption, shareholders would be promptly notified.

BY MAIL. Shareholders may redeem shares by sending a written request to FSC as appropriate. The written request should include the shareholder's name, the Fund name, the account number, and the share or dollar amount requested. If share certificates have been issued, they must be properly endorsed and should be sent by registered or certified mail with the written request. Shareholders should call FSC at 1-800-618-8573 for assistance in redeeming by mail.

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

a trust company or commercial bank whose deposits are insured by the Bank Insurance Fund, which is administered by the FDIC;

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

a savings bank or savings and loan association whose deposits are insured by the Savings Association Insurance Fund, which is administered by the FDIC; or

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

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

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

ACCOUNTS WITH LOW BALANCES

Due to the high cost of maintaining accounts with low balances, the Fund may redeem shares in any account and pay the proceeds to the shareholder if the account balance falls below the required minimum of \$1,000 due to shareholder redemptions.

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

SHAREHOLDER INFORMATION

VOTING RIGHTS

Each share of the Fund gives the shareholder one vote in Trustee elections and other matters submitted to shareholders for vote. All shares of all classes of each portfolio in the Trust have equal voting rights except that in matters affecting only a particular fund or class, only shares of that fund or class are entitled to vote. As of February 10, 1994, Union Planters National Bank, Memphis, Tennessee, acting in various capacities for numerous accounts, was the owner of record of 3,535,067 shares (95.24%) of the Fund, and therefore, may, for certain purposes, be deemed to control the Fund and be able to affect the outcome of certain matters presented for a vote of shareholders.

As a Massachusetts business trust, the Trust is not required to hold annual shareholder meetings. Shareholder approval will be sought only for certain changes in the Trust's or the Fund's operation and for the election of Trustees under certain circumstances. Trustees may be removed by the Trustees or by shareholders at a special meeting. A special meeting of the shareholders for this purpose shall be called by the Trustees upon the written request of shareholders owning at least 10% of the outstanding shares of all series in the Trust entitled to vote.

MASSACHUSETTS PARTNERSHIP LAW

Under certain circumstances, shareholders may be held personally liable as partners under Massachusetts law for acts or obligations of the Trust on behalf of the Fund. To protect shareholders of the Fund, the Trust has filed legal documents with Massachusetts that expressly disclaim the liability of shareholders of the Fund for such acts or obligations of the Trust. These documents require notice of this disclaimer to be given in each agreement, obligation, or instrument that the Trust or its Trustees enter into or sign on behalf of the Fund.

In the unlikely event that a shareholder of the Fund is held personally liable for the Trust's obligations on behalf of the Fund, the Trust is required to use the property of the Fund to protect or compensate the shareholder. On request, the Trust will defend any claim made and pay any judgment against a shareholder of the Fund for any act or obligation of the Trust on behalf of the Fund. Therefore, financial loss resulting from liability as a shareholder of the Fund will occur only if the Trust cannot meet its obligations to indemnify shareholders and pay judgments against them from the assets of the Fund.

EFFECT OF BANKING LAWS

The Glass-Steagall Act and other banking laws and regulations presently prohibit a bank holding company registered under the Federal Bank Holding Company Act of 1956 or any affiliate thereof from sponsoring, organizing or controlling a registered, open-end investment company continuously engaged in the issuance of its shares, and from issuing, underwriting, selling or distributing securities in general. Such laws and regulations do not prohibit such a holding company or affiliate from acting as investment adviser, transfer agent or custodian to such an investment company or from purchasing shares of such a company as agent for and upon the order of their customers. The Fund's adviser, Union Planters, is subject to such banking laws and regulations.

Union Planters believes that it may perform the investment advisory services for the Fund contemplated by its advisory agreement with the Trust without violating the Glass-Steagall Act or other applicable banking laws or regulations. Changes in either federal or state statutes and regulations relating to the permissible activities of banks and their subsidiaries or affiliates, as well as further judicial or administrative decisions or interpretations of present or future

statutes and regulations, could prevent Union Planters from continuing to perform all or a part of the above services for its customers and/or the Fund. In such event, changes in the operation of a Fund may occur, including the possible alteration or termination of any automatic or other Fund share investment or redemption services then being provided by Union Planters, and the Trustees would consider alternative investment advisers and other means of continuing available investment services. It is not expected that existing Fund's shareholders would suffer any adverse financial consequences (if another adviser with equivalent abilities to Union Planters is found) as a result of any of these occurrences.

TAX INFORMATION

FEDERAL INCOME TAX

The Fund expects to pay no federal income tax because it expects to meet requirements of the Internal Revenue Code ("the Code") applicable to regulated investment companies and to receive the special tax treatment afforded to such companies.

Dividends of the Fund representing net interest income earned on some temporary investments and any realized net short-term gains are taxed as ordinary income. Distributions representing net long-term capital gains realized by the Fund, if any, will be taxable as long-term capital gains regardless of the length of time shareholders have held their shares.

These tax consequences apply whether dividends are received in cash or as additional shares. Information on the tax status of dividends and distributions is provided annually.

STATE OF TENNESSEE TAXES

Under existing Tennessee law, as long as the Fund qualifies as a separate "regulated investment company" under the Code, then the dividends from the Fund are exempt from the Tennessee Individual Income Tax also known as the Hall Income Tax, pursuant to Tennessee Code Annotated Sec. 67-2-104(f) in proportion to the income attributable to interest on bonds or securities of the United States government or any agency or instrumentality thereof or to the bonds of the state of Tennessee, or any county or municipality or political subdivision thereof, including any agency, board, authority or commission of any of the foregoing.

OTHER STATE AND LOCAL TAXES

Income from the Fund is not necessarily free from state income taxes in states other than Tennessee or from personal property taxes. State laws differ on this issue, and shareholders are urged to consult their own tax advisers regarding the status of their accounts under state and local tax laws.

PERFORMANCE INFORMATION

From time to time the Fund advertises total return, yield, and tax-equivalent yield. Total return represents the change, over a specified period of time, in the value of an investment in shares after reinvesting all income and capital gains distributions. It is calculated by dividing that change by the initial investment and is expressed as a percentage.

The yield of the Fund is calculated by dividing the net investment income per share (as defined by the Securities and Exchange Commission) earned by shares over a thirty-day period by the maximum offering price per share on the last day of the period. This number is then annualized using semi-annual compounding. The tax-equivalent yield of shares is calculated similarly to the yield, but is adjusted to reflect the taxable yield that shares would have had to earn to equal its actual yield, assuming a specific tax rate. The yield and the tax-equivalent yield do not necessarily reflect income actually earned by shares and, therefore, may not correlate to the dividends or other distributions paid to shareholders.

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

From time to time, the Fund may advertise its performance using certain financial publications and/or compare its performance to certain indices.

TENNESSEE TAX-FREE BOND FUND
PORTFOLIO OF INVESTMENTS
JANUARY 31, 1994
(UNAUDITED)

<TABLE>
<CAPTION>

PRINCIPAL AMOUNT <C>	<S>	CREDIT RATING: MOODY'S OR S&P* <C>	VALUE <C>
MUNICIPAL SECURITIES--100.1%			
\$ 500,000	Anderson County, TN, 6.30%, Refunding UT GO Bonds, (Rural High School) Callable 1/1/97 @ 102, 7/1/2001	A	\$ 536,370
250,000	Chattanooga--Hamilton County, TN Hospital Authority Revenue, 7.00%, Refunding Bonds, (Enlarger Medical Center), Callable 10/1/96 @ 102, (MBIA Insured), 10/1/97	AAA	278,470
465,000	Chattanooga--Hamilton County, TN Hospital Authority Revenue, 5.50%, Refunding Bonds, (Enlarger Medical Center)/(FSA Insured)/(Original Issue Yield: 5.60%), 10/1/2006	AAA	496,499
1,000,000	Chattanooga--Hamilton County, TN Hospital Authority Revenue, 5.50%, Refunding Bonds, (Enlarger Medial Center), Callable 10/1/2003 @ 102, (FSA Insured) / (Original Issue Yield: 5.85%), 10/1/2013	AAA	1,020,650
1,000,000	Clarksville, TN Electric System Revenue, 5.125%, Refunding and Improvement Bonds, Callable 9/1/2003 @ 102, 9/1/2011	A	998,220
735,000	Clarksville, TN Water, Sewer and Gas Systems, 6.125%, Refunding and Improvement Revenue Bonds, Callable 2/1/2002 @ 102, (Original Issue Yield: 6.15%), 2/1/2007	AAA	812,748
500,000	Clarksville, TN Water, Sewer and Gas Systems, 6.125%, Refunding and Improvement Revenue Bonds, Callable 2/1/2002 @ 102, (MBIA Insured)/(Original Issue Yield: 6.328%), 2/1/2012	AAA	542,760
400,000	Hamblen County, TN Hospital Revenue, 4.90%, UT GO Bonds, Callable 5/1/99 @ 102, (AMBAC Insured), 5/1/2006	AAA	406,064
100,000	Hamblen County, TN Hospital Revenue, 5.00%, UT GO Bonds, Callable 5/1/99 @ 102, (AMBAC Insured), 5/1/2007	AAA	101,509
400,000	Hamilton County, TN Industrial Development Revenue, 9.50%, Refunding Bonds, (Series 1985), Callable 9/1/95 @ 102, 9/1/96 (Escrowed to Maturity)	(AAA) **	448,460
185,000	Jackson, TN Health, Educational and Housing Facilities Revenue, 5.70%, (Jackson--Madison County General Hospital)/(MBIA Insured), 4/1/99	AAA	199,088
1,000,000	Jackson, TN Health, Educational and Housing Facilities Revenue, 5.90%, (Jackson--Madison County General Hospital)/(MBIA Insured), 4/1/2000	AAA	1,093,710
1,250,000	Johnson City, TN Health and Educational Facilities, 6.75%, Refunding and Improvement Revenue Bonds, (Johnson City Med), Callable 7/1/2001 @ 102, (MBIA Insured)/(Original Issue Yield: 6.912%), 7/1/2006	AAA	1,426,538
1,000,000	Knox County, TN Health, Educational and Housing Facilities Revenue, 7.00%, (Fort Sanders Alliance)/(Series C), Callable 1/1/2000 @ 102, (MBIA Insured), 1/1/2008	AAA	1,171,280
280,000	Knox County, TN Health, Educational and Housing Facilities Revenue, 4.85%, Refunding Bonds, (Mercy Health Care System)/(Series B)/(AMBAC Insured)/(Original Issue Yield: 5.00%), 9/1/2000	AAA	291,998
650,000	Knox County, TN Health, Educational and Housing Facilities Revenue, 5.00%, Refunding Bonds, (Fort Sanders Medical Center)/(MBIA Insured)/(Original Issue Yield: 5.05%), 1/1/2001	AAA	680,108
745,000	Knox County, TN Health, Educational and Housing Facilities Revenue, 5.40%, Refunding Bonds, (Fort Sanders Medical Center), Callable		

	1/1/2002 @ 102, (MBIA Insured)/(Original Issue Yield: 5.50%), 1/1/2005	AAA	786,526
805,000	Knox County, TN Health, Educational and Housing Facilities Revenue, 4.90%, Refunding Bonds, (Fort Sanders Alliance)/(Series A), Callable 1/1/2004 @ 102, (MBIA Insured)/(Original Issue Yield: 5.10%), 1/1/2005	AAA	820,657
475,000	Knoxville, TN, 5.80%, UT GO Bonds, Refunding and Improvements Revenue, (Series A), Callable 5/1/96 @ 102, 5/1/99	AA-	501,662
1,000,000	Knoxville, TN Natural Gas Revenue, 5.05%, Refunding Bonds, Callable 3/1/2000 @ 102, (Original Issue Yield: 5.10%), 3/1/2008	AA	1,007,870
250,000	Knoxville, TN Water Revenue, 5.20%, Refunding and Improvement Bonds, Callable 3/1/2000 @ 102, (Original Issue Yield: 5.45%), 3/1/2010	AA	251,133
100,000	Madison County, TN, 5.35%, UT GO Bonds, (School Improvements)/(Series A), 8/1/99	A	106,503
1,200,000	Memphis-Shelby County, TN Airport, 6.75%, Refunding Revenue Bonds, (Federal Express Corp.), Callable 9/1/2002 @ 102, 9/1/2012	BBB	1,308,372
600,000	Memphis, TN, Zero Coupon, UT GO Bonds, (Recreational Facilities Improvements)/(Series C), Callable 12/1/95 @ 102, 12/1/2004	AAA	1,288,902
465,000	Memphis, TN Electric System Revenue, 5.00%, Refunding Bonds, (Series A)/(Original Issue Yield: 5.05%), 1/1/99	AA	487,669
490,000	Metropolitan Government Nashville and Davidson County, TN, 6.00%, UT GO Bonds (Public and School Improvements), Callable 3/1/94 @ 102 1/2, 3/1/2000	AA	504,460
100,000	Metropolitan Government Nashville and Davidson County, TN, 4.625%, Refunding UT GO Bonds, (Original Issue Yield: 4.796%), 5/15/2000	AA	103,494
230,000	Metropolitan Government Nashville and Davidson County, TN, 5.25%, Refunding UT GO Bonds, (Original Issue Yield: 5.45%), 5/15/2007	AA	241,912
1,500,000	Metropolitan Government Nashville and Davidson County, TN Health and Educational Facilities Revenue, 5.20%, Refunding Bonds, (Vanderbilt University), Callable 7/1/2003 @ 102, (Original Issue Yield: 5.55%), 7/1/2018	AA	1,497,870
770,000	Metropolitan Government Nashville and Davidson County, TN Water and Sewer Revenue, 7.25%, Refunding Bonds, Callable 1/1/96 @ 102, 1/1/2006	A	835,573
400,000	Metropolitan Government Nashville and Davidson County, TN Water and Sewer Revenue, 7.30%, Refunding Bonds, Callable 1/1/96 @ 102, 1/1/2008	A	434,432
535,000	Metropolitan Government Nashville and Davidson County, TN Water and Sewer Revenue, 5.50%, Callable 1/1/2002 @ 102, (AMBAC Insured)/(Original Issue Yield: 5.55%), 1/1/2003	AAA	577,169
250,000	Metropolitan Government Nashville and Davidson County, TN Water and Sewer Revenue, 5.75%, Callable 1/1/2002 @ 102, (AMBAC Insured)/(Original Issue Yield: 6.15%), 1/1/2012	AAA	263,505
230,000	Metropolitan Government Nashville and Davidson County, TN Water and Sewer Revenue, 5.20%, Refunding Bonds, (FGIC Insured)/(Original Issue Yield: 5.53%), 1/1/2013	AAA	233,315
1,385,000	Montgomery County, TN Public Building Authority Revenue, 7.50%, Callable 6/15/94 @ 100, (Prudential Insurance Company of America Insured), 12/15/2000	AA+	1,386,953
800,000	Mt. Juliet, TN Public Building Authority Revenue, 7.00%, (Series O), Callable 2/1/2001 @ 102, (MBIA Insured), 2/1/2006	AAA	926,472
1,500,000	Putnam County, TN, 5.125%, UT GO Bonds, (Public Improvements), Callable 4/1/2003 @ 102, (MBIA Insured)/(Original Issue Yield: 5.35%), 4/1/2011	AAA	1,506,855

250,000	Putnam County, TN, 5.125%, UT GO Bonds, (Public Improvements), Callable 4/1/2003 @ 102, (MBIA Insured)/ (Original Issue Yield: 5.35%), 4/1/2012	AAA	248,665
220,000	Rutherford County, TN, 5.00%, UT GO Bonds, Cap. Outlay Notes, (School Improvements), 6/1/2000	AA-	231,306
460,000	Rutherford County, TN, 5.10%, UT GO Bonds, Cap. Outlay Notes, (School Improvements), 6/1/2001	AA-	486,464
480,000	Shelby County, TN, 6.20%, Refunding UT GO Bonds, (Series A), Callable 3/1/2000 @ 101 1/2, (Original Issue Yield: 6.30%), 3/1/2006	AA+	522,312
500,000	Shelby County, TN, 5.875%, Refunding UT GO Bonds, (Series B), Callable 3/1/2001 @ 101 1/2, (Original Issue Yield: 5.95%), 3/1/2007	AA+	537,600
500,000	Shelby County, TN, 5.10%, UT GO Bonds, (Public Improvements), Callable 3/1/2001 @ 101, (Original Issue Yield: 5.25%), 3/1/2011	AA+	504,185
1,000,000	Shelby County, TN Health, Educational and Housing Facilities Revenue, 6.00%, (St. Joseph Hospital East, Inc.), Callable 3/1/2005 @ 100, 3/1/2005	AAA	1,116,750
93,000	Shelby County, TN Health, Educational and Housing Facilities Revenue, 6.20%, (Methodist Health System)/ (Series C), (MBIA Insured), 8/1/2013	AAA	93,353
1,250,000	Shelby County, TN Health, Educational and Housing Facilities Revenue, 7.40%, (Methodist Health System)/(Series A), Callable 6/1/98 @ 102, (MBIA Insured), 6/1/2003	AAA	1,427,725
465,000	Shelby County, TN Health, Educational and Housing Facilities Revenue, 5.00%, Refunding Bonds, (Le Bonhuer Childrens Medical Center)/(Series D)/(MBIA Insured)/ (Original Issue Yield: 5.10%, 8/15/2001	AAA	488,204
425,000	Tennessee Housing Development Agency, 6.40%, Revenue Bonds, (Homeownership Program--Issue U), 7/1/2000	A+	457,053
430,000	Tennessee Housing Development Agency, 6.90%, Revenue Bonds, (Homeownership Program--Issue U), 7/1/2001 @ 102, 7/1/2005	A+	468,128
1,500,000	Tennessee Housing Development Agency Mortgage, 5.40%, Refunding Revenue Bonds, (Series A), Callable 7/1/2003 @ 102, 7/1/2004	A+	1,581,825
235,000	Tennessee Housing Development Agency Mortgage, 5.65%, Refunding Revenue Bonds, (Series A), Callable 7/1/2003 @ 102, 1/1/2007	A+	236,556
500,000	Tennessee Housing Development Agency Mortgage, 5.70%, Refunding Revenue Bonds, (Series A), Callable 7/1/2003 @ 102, 1/1/2008	A+	505,410
500,000	Tennessee Housing Development Agency Mortgage, 5.70%, Refunding Revenue Bonds, (Series A), Callable 7/1/2003 @ 102, 7/1/2008	A+	505,410
550,000	Tennessee Housing Development Agency Mortgage, 5.85%, Refunding Revenue Bonds, (Series A), Callable 7/1/2003 @ 102, 7/1/2013	A+	559,592
1,000,000	Tennessee State, 6.60%, UT GO Bonds, (Miscellaneous Improvements)/(Series B), Callable 6/1/2001 @ 101 1/2, 6/1/2004	AA+	1,142,700
300,000	Tennessee State, 6.10%, Refunding UT GO Bonds, (Series A), 6/1/2000	AA+	335,988
265,000	Tennessee State, 5.375%, UT GO Bonds, (Public Improvements)/(Series A), Callable 7/1/2002 @ 101 1/2, (Original Issue Yield: 5.45%), 7/1/2003	AA+	287,498
500,000	Tennessee State, 5.50%, UT GO Bonds, (Public Improvements)/(Series A), Callable 7/1/2002 @ 101 1/2, (Original Issue Yield: 5.65%), 7/1/2005	AA+	540,210
500,000	Tennessee State Local Development Authority, 5.65%, Refunding Revenue Bonds, (Series A), Callable 3/1/2003 @ 102, 3/1/2007	AA-	526,930
195,000	Tennessee State School Board Authority, 5.75%, Refunding Revenue		

	Bonds, Callable 9/13/93 @ 101 1/4, (GO of Auth Insured), 5/1/2006	AA	197,982
1,035,000	Williamson County, TN, 6.00%, Refunding UT GO Bonds, 3/1/2008	AA	1,148,674
	TOTAL MUNICIPAL SECURITIES (IDENTIFIED COST \$38,803,581)		\$ 39,726,296

</TABLE>

* For explanations of credit ratings, see the Fund's Statement of Additional Information.

** The issuer of this security has placed U.S. government securities in escrow with a trustee. The proceeds from the government securities will be used to pay principal and interest on the security. While this security is unrated, the Fund's managers are of the opinion that it is comparable to the highest quality ratings issued by Moody's or Standard & Poors.

\ The cost of investments for federal income tax purposes amounts to \$38,803,581. The net realized appreciation of investments on a federal income tax basis amounts to \$922,715 which is comprised of \$929,391 appreciation and \$6,676 depreciation at January 31, 1994.

Note: The category of investments is shown as a percentage of net assets (\$39,669,673) at January 31, 1994.

The following abbreviations are used in this portfolio:

AMBAC--American Municipal Bond Assurance Corporation
 FGIC--Financial Guaranty Insurance Co.
 FSA--Financial Security Assurance
 GO--General Obligation
 MBIA--Municipal Bond Investors Assurance
 UT--Unlimited Tax

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

TENNESSEE TAX-FREE BOND FUND
 (A PORTFOLIO OF THE PLANTERS FUNDS)
 STATEMENT OF ASSETS AND LIABILITIES
 JANUARY 31, 1994
 (UNAUDITED)

	<C>	<C>
<TABLE>		
<S>		
ASSETS:		
Investments in securities, at value (Note 2A) (identified and tax cost, \$38,803,581)		\$ 39,726,296
Interest receivable		496,082
Receivable for Investments sold		881,618
Receivable for Funds shares sold		318,608
Deferred expenses (Note 2E)		15,637
Total assets		41,438,241
LIABILITIES:		
Payable for investments purchased	\$ 1,502,790	
Payable to bank	147,516	
Payable for Fund shares repurchased	50,339	
Accrued expenses	67,923	
Total liabilities		1,768,568
NET ASSETS for 3,666,098 shares of beneficial interest outstanding		\$ 39,669,673
NET ASSETS CONSIST OF:		
Paid-in capital		\$ 38,703,331
Unrealized appreciation of investments		922,715
Net realized gain on investments		5,447
Undistributed net investment income		38,180

Total	\$ 39,669,673
NET ASSET VALUE, and Redemption Price Per Share (\$39,669,673 / 3,666,098 shares of beneficial interest outstanding)	\$10.82
Computation of Offering Price: Offering price Per Share (100/96 of 10.82)*	\$ 11.27

</TABLE>

*On sales of \$50,000 or more, the offering price is reduced as stated under "What Shares Cost" in the prospectus. During the period from February 1, 1994, through and including September 30, 1994, the maximum sales charge imposed on the purchase of shares of the Fund will be 2% of the offering price of the shares purchased.

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

TENNESSEE TAX-FREE BOND FUND
(A PORTFOLIO OF THE PLANTERS FUNDS)
STATEMENT OF OPERATIONS
FOR THE PERIOD FROM AUGUST 5, 1993
(START OF BUSINESS) TO JANUARY 31, 1994
(UNAUDITED)

	<C>	<C>	<C>
<TABLE>			
<S>			
INVESTMENT INCOME:			
Interest income (Note 2B)			\$ 664,323
EXPENSES--			
Investment advisory fee (Note 5)		\$ 103,304	
Administrative personnel and services (Note 5)		50,254	
Custodian expenses (Note 5)		14,088	
Transfer and dividend disbursing agent fees (Note 5)		16,833	
Recordkeeper fees (Note 5)		24,564	
Legal fees		3,426	
Insurance premiums		897	
Miscellaneous		4,088	
Total expenses		217,454	
Deduct--			
Waiver of investment advisory fee (Note 5)	\$ 90,600		
Waiver of administrative personnel and services (Note 5)	44,166	134,766	
Net expenses			82,688
Net investment income			\$ 581,635
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS--			
Net realized gain on investments (identified cost basis)			5,447
Net change in unrealized appreciation (depreciation) on investments			922,715
Net realized and unrealized gain on investments			928,162
Change in net assets resulting from operations			\$ 1,509,797

</TABLE>

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

TENNESSEE TAX-FREE BOND FUND
(A PORTFOLIO OF THE PLANTERS FUNDS)
STATEMENT OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

PERIOD ENDED
JANUARY 31, 1994*
(UNAUDITED)

<S>	<C>
-----	-----
INCREASE (DECREASE) IN NET ASSETS:	
-----	-----
OPERATIONS--	
-----	-----
Net investment income	\$ 581,635
-----	-----
Net realized gain on investments transactions (\$5,447 net gain as computed for federal tax purposes) (Note 2C)	5,447
-----	-----
Change in unrealized appreciation of investments	922,715
-----	-----
Change in net assets resulting from operations	1,509,797
-----	-----
DISTRIBUTIONS TO SHAREHOLDERS (NOTE 3)--	
-----	-----
Dividends to shareholders from net investment income	(543,455)
-----	-----
FUND SHARE (PRINCIPAL) TRANSACTIONS (NOTE 4)--	
-----	-----
Proceeds from sale of shares	41,130,119
-----	-----
Net asset value on shares issued to shareholders in payment of dividends declared	95,973
-----	-----
Cost of shares redeemed	(2,522,761)
-----	-----
Change in net assets from Fund share transactions	38,703,331
-----	-----
Change in net assets	39,669,673
-----	-----
NET ASSETS--	
-----	-----
Beginning of period	--
-----	-----
End of period (including undistributed net investment income of \$38,180)	\$ 39,669,673
-----	-----

</TABLE>

* For the period from August 5, 1993 (start of business) to January 31, 1994.

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

TENNESSEE TAX-FREE BOND FUND
(A PORTFOLIO OF THE PLANTERS FUNDS)
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JANUARY 31, 1994
(UNAUDITED)

(1) ORGANIZATION

The Planters Funds (the "Trust") is registered under the Investment Company Act of 1940, as amended, as an open-end management investment company. The financial statements included herein are only those of Tennessee Tax-Free Bond Fund (the "Fund"), a non-diversified portfolio of the Trust. At January 31, 1994 the Trust did not have any other Portfolios effective.

(2) SIGNIFICANT ACCOUNTING POLICIES

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

- A. INVESTMENT VALUATIONS--Municipal bonds are valued at fair value. An independent pricing service values the Fund's municipal bonds taking into consideration yield, stability, risk, quality, coupon, maturity, type of issue, trading characteristics, special circumstances of a security or trading market, and any other factor or market data it deems relevant in determining valuations for normal institutional size trading units of debt securities and does not rely exclusively on quoted prices.

Since the Fund may invest a substantial portion of its assets in issuers located in one state, it will be more susceptible to factors adversely affecting issuers of that state, than would be a comparable general

tax-exempt mutual fund. In order to reduce the risk associated with such factors, at January 31, 1994, 41.9% of the securities in the portfolio of investments were backed by letters of credit or bond insurance of various financial institutions and financial guaranty assurance agencies of various financial institutions. The aggregate percentages by financial institutions ranged from 0.5% to 29.4% of total investments.

- B. INCOME--Interest income is recorded on the accrual basis. Interest income includes interest earned net of premium, and original issue discount as required by the Internal Revenue Code.
- C. FEDERAL TAXES--It is the Fund's policy to comply with the provisions of the Internal Revenue Code (the "Code") applicable to investment companies and distribute to shareholders each year all of its net income. Accordingly, no provision for federal tax is necessary. Dividends paid by the Fund representing net interest received on tax-exempt municipal securities are not includable by shareholders as gross income for federal income tax purposes, because the Fund intends to meet certain requirements of the Code applicable to regulated investment companies which will enable the Fund to pay tax-exempt interest dividends. The portion of such interest, if any, private activity bonds issued after August 7, 1986, may be considered a tax preference item to shareholders for the purpose of computing the alternative minimum tax.
- D. WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS--The Fund may engage in when-issued or delayed delivery transactions. To the extent the Fund engages in such transactions, it will do so for the purpose of acquiring portfolio securities consistent with its investment objective and policies and not for the purpose of investment leverage. The Fund will record a when-issued security and the related liability on the trade date. Until the securities are received and paid for, the Fund will maintain 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.
- E. DEFERRED EXPENSES--The costs incurred by the Fund with respect to the registration of its shares in its first fiscal year, excluding the initial expense of registering the shares, have been deferred and are being amortized using the straight-line method over a period of five years from the Fund's commencement date.
- F. OTHER--Investment transactions are accounted for on the date of the transaction.

(3) DIVIDENDS

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

(4) SHARES OF BENEFICIAL INTEREST

The Declaration of Trust permits the Trustees to issue an unlimited number of full and fractional shares of beneficial interest (without par value) for each class of shares. At January 31, 1994 capital paid-in aggregated \$38,703,331. Transactions in Fund shares were as follows:

<TABLE>
<CAPTION>

	ENDED 1/31/94*
<S>	<C>
-----	-----
Shares outstanding, beginning of period	--
-----	-----
Shares sold	3,894,354
-----	-----
Shares issued to shareholders in payment of dividends declared	9,002
-----	-----
Shares redeemed	(237,258)
-----	-----
Shares outstanding, end of period	3,666,098
-----	-----

</TABLE>

*The period from August 5, 1994 (start of business) to January 31, 1994.

(5) INVESTMENT ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

Union Planters National Bank, the Fund's investment adviser ("Adviser"), receives for its services an annual investment advisory fee equal to .75 of 1%

of the Fund's average daily net assets. The Adviser has voluntarily agreed to waive a portion of its fee. The Adviser can modify or terminate this voluntary waiver at any time at its sole discretion. For the period ended January 31, 1994, the investment advisor earned \$103,304 of which \$90,600 was voluntarily waived.

Federated Administrative Services ("FAS") provides the Fund with certain administrative personnel and services, and receives for its services an annual fee equal to .150 of 1% on the first \$250 million of average aggregate daily net assets of the Trust; .125 of 1% on the next \$250 million; .100 of 1% on the next \$250 million; and .075 of 1% on average aggregate daily net assets in excess of \$750 million. FAS may voluntarily choose to waive a portion of its fee. For the period ended January 31, 1994, FAS earned \$50,254, of which \$44,166 was voluntarily waived.

For the services to be provided to the Funds pursuant to the Custodian Agreement, the Funds pays State Street Bank (the "Custodian") an annual fee equal to .02 of 1% on the first \$250 million of average aggregate daily net assets of the Trust; .015 of 1% of average aggregate daily net assets from \$250 million to \$500 million; and .01 of 1% of average aggregate daily net assets over \$500 million.

Federated Services Company ("FSC") is transfer agent for the shares of the Funds and dividend disbursing agent for the Funds. It also provides certain accounting and recordkeeping services with respect to the Fund's portfolios of investments.

Certain of the Officers and Trustees of the Fund are Officers and Trustees of the companies mentioned in this Note to the financial statements.

(6) INVESTMENT TRANSACTIONS

Purchases and sales and maturities of investments excluding short-term securities, for the period ended January 31, 1994 were as follows:

<S>	<C>
PURCHASES	\$ 43,346,434
SALES	\$ 4,445,003

THIS PAGE INTENTIONALLY LEFT BLANK
 THIS PAGE INTENTIONALLY LEFT BLANK
 THIS PAGE INTENTIONALLY LEFT BLANK

ADDRESSES

<S>	<C>	<C>
	Tennessee Tax-Free Bond Fund	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Distributor	Federated Securities Corp.	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Investment Adviser	Union Planters National Bank	P.O. Box 387 Memphis, Tennessee 38147
Custodian	State Street Bank and Trust Company	P.O. Box 8604 Boston, Massachusetts 02266-8604
Transfer Agent, Dividend Disbursing Agent, and Portfolio Accounting Services	Federated Services Company	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Legal Counsel	Houston, Houston & Donnelly	2510 Centre City Tower Pittsburgh, Pennsylvania 15222

Legal Counsel

Dickstein, Shapiro & Morin

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

Independent Auditors

Price Waterhouse

160 Federal Street
Boston, Massachusetts 02110

</TABLE>

TENNESSEE TAX-FREE
BOND FUND
PROSPECTUS

A Non-Diversified Portfolio
of The Planters Funds
An Open-End, Management
Investment Company

February 28, 1994

Union Planters National Bank
Investment Adviser

<logo> FEDERATED SECURITIES CORP.

Distributor
A subsidiary of FEDERATED INVESTORS
LIBERTY CENTER
FEDERATED INVESTORS TOWER
PITTSBURGH, PA 15222-3779

3072709A (2/94)

TENNESSEE TAX-FREE BOND FUND
(A PORTFOLIO OF THE PLANTERS FUNDS)
STATEMENT OF ADDITIONAL INFORMATION

This Statement of Additional Information should be read with the prospectus of shares of Tennessee Tax-Free Bond Fund (the "Fund") dated February 28, 1994. This Statement is not a prospectus itself. To receive a copy of the prospectus write or call Federated Securities Corp. at 1-800-618-8573.

FEDERATED INVESTORS TOWER
PITTSBURGH, PENNSYLVANIA 15222-3779

Statement dated February 28, 1994

<logo> FEDERATED SECURITIES CORP.

Distributor
A subsidiary of FEDERATED INVESTORS

TABLE OF CONTENTS

GENERAL INFORMATION ABOUT THE FUND	1

INVESTMENT OBJECTIVE AND POLICIES	1

Acceptable Investments	1
When-Issued and Delayed Delivery Transactions	2
Temporary Investments	2
Repurchase Agreements	2
Portfolio Turnover	2
Investment Limitations	2
Investment Risks	4

MANAGEMENT OF THE TRUST	4

Board of Trustees	4
Officers and Trustees	4
Fund Ownership	6
Trustee Liability	6
The Funds	6

INVESTMENT ADVISORY SERVICES	7

Adviser to the Fund	7
Advisory Fees	7
ADMINISTRATIVE SERVICES	7

Administrative Arrangements	8
BROKERAGE TRANSACTIONS	8

PURCHASING SHARES	8

DETERMINING NET ASSET VALUE	8

Valuing Municipal Bonds	8
Use of Amortized Cost	8
REDEEMING SHARES	9

Redemption in Kind	9
TAX STATUS	9

The Fund's Tax Status	9
Shareholder's Tax Status	9
TOTAL RETURN	9

YIELD	10

TAX-EQUIVALENT YIELD	10

Tax-Equivalency Table	10
PERFORMANCE COMPARISONS	11

APPENDIX	12

GENERAL INFORMATION ABOUT THE FUND

The Fund is a portfolio in The Planters Funds (the "Trust"). The Trust was established as a Massachusetts business trust under a Declaration of Trust dated May 14, 1993.

INVESTMENT OBJECTIVE AND POLICIES

The Fund's investment objective is to provide current income exempt from federal income tax and personal income taxes imposed by the state of Tennessee and Tennessee municipalities. The investment objective cannot be changed without the approval of shareholders.

ACCEPTABLE INVESTMENTS

The Fund invests primarily in a portfolio of municipal securities which are exempt from federal income tax and personal income taxes imposed by the state of Tennessee and Tennessee municipalities ("Tennessee Municipal Securities"). The municipal securities in which the Fund invests include those issued by or on behalf of the state of Tennessee and Tennessee municipalities as well as those issued by states, territories, and possessions of the United States which are exempt from federal income tax and personal income taxes imposed by the state of Tennessee and Tennessee municipalities.

CHARACTERISTICS

The Tennessee municipal securities in which the Fund invests have the characteristics set forth in the prospectus. If ratings made by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Corporation

("S&P") or Fitch's Investors Service ("Fitch's") change because of changes in those organizations or in their rating systems, the Fund will try to use comparable ratings as standards in accordance with the investment policies described in the Fund's prospectus.

TYPES OF ACCEPTABLE INVESTMENTS

Examples of Tennessee municipal securities include:

governmental lease certificates of participation issued by state or municipal authorities where payment is secured by installment payments for equipment, buildings, or other facilities being leased by the state or municipality;

municipal notes and tax-exempt commercial paper;

serial bonds;

tax anticipation notes sold to finance working capital needs of municipalities in anticipation of receiving taxes;

bond anticipation notes sold in anticipation of the issuance of long-term bonds;

pre-refunded municipal bonds whose timely payment of interest and principal is ensured by an escrow of U.S. government obligations; and

general obligation bonds.

PARTICIPATION INTERESTS

The financial institutions from which the Fund purchases participation interests frequently provide or secure from another financial institution irrevocable letters of credit or guarantees and give the Fund the right to demand payment of the principal amounts of the participation interests plus accrued interest on short notice (usually within seven days).

VARIABLE-RATE MUNICIPAL SECURITIES

Variable interest rates generally reduce changes in the market value of municipal securities from their original purchase prices. Accordingly, as interest rates decrease or increase, the potential for capital appreciation or depreciation is less for variable-rate municipal securities than for fixed-income obligations. Many municipal securities with variable interest rates purchased by the Fund are subject to repayment of principal (usually within seven days) on the Fund's demand. The terms of these variable-rate demand instruments require payment of principal and accrued interest from the issuer of the municipal obligations, the issuer of the participation interests, or a guarantor of either issuer.

MUNICIPAL LEASES

In determining the liquidity of municipal lease securities, the adviser, under the authority delegated by the Board of Trustees, will base its determination on the following factors: (a) whether the lease can be terminated by the lessee; (b) the potential recovery, if any, from a sale of the leased property upon termination of the lease; (c) the lessee's general credit strength (e.g., its debt, administrative, economic and financial characteristics, and prospects); (d) the likelihood that the lessee will discontinue appropriating funding for the leased property because the property is no longer deemed essential to its operations (e.g., the potential for an event of nonappropriation); and (e) any credit enhancement or legal recourse provided upon an event of nonappropriation or other termination of the lease.

WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS

These transactions are arrangements in which the Fund purchases securities with payment and delivery scheduled for a future time. The Fund engages in when-issued and delayed delivery transactions only for the purpose of acquiring portfolio securities consistent with the Fund's investment objective and policies, not for investment leverage. These transactions are made to secure what is considered to be an advantageous price and yield for the Fund. Settlement dates may be a month or more after entering into these transactions, and the market values of the securities purchased may vary from the purchase prices.

No fees or expenses, other than normal transaction costs, are incurred. However, liquid assets of the Fund sufficient to make payment for the securities to be purchased are segregated on the Fund's records at the trade date. These assets are marked to market daily and maintained until the transaction is settled. During the current year, the Fund does not anticipate investing more than 20% of

its total assets in when-issued and delayed delivery transactions.

TEMPORARY INVESTMENTS

From time to time, during periods of other than normal market conditions, the Fund may invest in short-term tax-exempt or taxable temporary investments.

REPURCHASE AGREEMENTS

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

From time to time, such as when suitable Tennessee municipal securities are not available, the Fund may invest a portion of its assets in cash. Any portion of the Fund's assets maintained in cash will reduce the amount of assets in Tennessee municipal securities and thereby reduce the Fund's yield.

PORTFOLIO TURNOVER

The Fund may trade or dispose of portfolio securities as considered necessary to meet its investment objective. It is not anticipated that the portfolio trading engaged in by the Fund will result in its annual rate of portfolio turnover exceeding 100%.

INVESTMENT LIMITATIONS

SELLING SHORT AND BUYING ON MARGIN

The Fund will not sell any securities short or purchase any securities on margin but may obtain such short-term credits as may be necessary for clearance of purchases and sales of securities.

ISSUING SENIOR SECURITIES AND BORROWING MONEY

The Fund will not issue senior securities except that the Fund may borrow money in amounts up to one-third of the value of its total assets, including the amounts borrowed. The Fund will not borrow money for investment leverage, but rather as a temporary extraordinary, or emergency measure to facilitate management of the portfolio by enabling the Fund to meet redemption requests when the liquidation of portfolio securities is deemed to be inconvenient or disadvantageous. The Fund will not purchase any securities while borrowings in excess of 5% of its total assets are outstanding.

PLEDGING ASSETS

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

UNDERWRITING

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

INVESTING IN COMMODITIES

The Fund will not buy or sell commodities, commodity contracts, or commodity futures contracts.

INVESTING IN REAL ESTATE

The Fund will not purchase or sell real estate, including limited partnership interests, although it may invest in municipal bonds secured by real estate or interests in real estate.

LENDING CASH OR SECURITIES

The Fund will not lend any of its assets except portfolio securities up

to one-third of the value of its total assets. The Fund may, however, acquire publicly or non-publicly issued municipal bonds or temporary investments or enter into repurchase agreements in accordance with its investment objective, policies and limitations.

DEALING IN PUTS AND CALLS

The Fund will not buy or sell puts, calls, straddles, spreads, or any combination of these.

CONCENTRATION OF INVESTMENTS

The Fund will not purchase securities if, as a result of such purchase, 25% or more of the value of its total assets would be invested in any one industry or in industrial development bonds or other securities, the interest upon which is paid from revenues of similar types of projects. However, under other than normal market conditions, the Fund may invest more than 25% of the value of its assets in cash or cash items, securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, or instruments secured by these money market instruments, i.e., repurchase agreements.

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

INVESTING IN ISSUERS WHOSE SECURITIES ARE OWNED BY OFFICERS AND TRUSTEES OF THE FUND

The Fund will not purchase or retain the securities of any issuer if the officers and Trustees of the Fund or its investment adviser, owning individually more than 1/2 of 1% of the issuer's securities, together own more than 5% of the issuer's securities.

INVESTING IN RESTRICTED SECURITIES

The Fund will not invest more than 10% of its total assets in securities subject to restrictions on resale under the Securities Act of 1933, except for commercial paper issued under Section 4(2) of the Securities Act of 1933 and certain other restricted securities which meet the criteria for liquidity as established by the Board of Trustees.

INVESTING IN ILLIQUID SECURITIES

The Fund will not invest more than 15% of its net assets in illiquid obligations, including repurchase agreements providing for settlement in more than seven days after notice, and certain restricted securities not determined by the Trustees to be liquid, including certain municipal leases.

INVESTING IN NEW ISSUERS

The Fund will not invest more than 5% of the value of its total assets in industrial development bonds where the principal and interest are the responsibility of companies (or guarantors, where applicable) with less than three years of continuous operations, including the operation of any predecessor.

INVESTING IN MINERALS

The Fund will not purchase interests in oil, gas, or other mineral exploration or development programs or leases, although it may invest in securities of issuers which invest in or sponsor such programs.

Except with respect to borrowing money, if a percentage limitation is adhered to at the time of investment, a later increase or decrease in percentage resulting from any change in value or net assets will not result in a violation of such restriction.

The Fund does not expect to borrow money or pledge securities in excess of 5% of the value of its net assets during the coming fiscal year.

For purposes of its policies and limitations, the Fund considers certificates of deposit and demand and time deposits issued by a U.S. branch of a domestic bank or savings and loan having capital, surplus, and undivided profits in excess of \$100,000,000 at the time of investment to be cash items.

INVESTMENT RISKS

The Fund's performance can be expected to be closely tied to the prevailing economic conditions of the state of Tennessee as a whole, its particular

geographic regions, and the industries located within state.

Traditionally divided into three geographic regions, the State's economy has historically been dominated by agriculture in the west, manufacturing in the east, and government in the middle region. Though trade and services have replaced agriculture in terms of total output, manufacturing continues to be the largest single sector of the economy. While the Gross State Product of Tennessee was in excess of \$100 billion in 1991 and the state placed 20th in national rank, manufacturing comprised 24% of total production in that year. The recent decision by Saturn and Nissan to locate automobile production facilities in the state suggests that manufacturing, with its inherent susceptibility to economic downturns, will continue to dominate.

Tennessee's economy experienced many of the problems associated with the national economy during the past recession. Though it consistently remained below the national average, the state's unemployment rate rose significantly during the prior recessionary period. Also, overbuilding of commercial and residential properties in prior years caused the state to experience some difficulties with declining real estate values.

Along with the national economy, Tennessee has recently experienced a slow recovery. Although moderate rates of economic growth in past recoveries along with a steady influx of transplant corporations have helped the state avoid the dramatic "boom and bust" cycle experienced by many sunbelt states, the recent recession did put pressure on governmental receipts and outlays.

The constitution of the state requires a balanced budget. This constraint along with relatively low debt and expenditure per capita ratios has helped the state maintain its current long term bond rating of AAA by S&P and Aaa by Moody's. While Tennessee is one of only nine states which have such ratings, the ability of the state to maintain this rating given the current economic and political environment is by no means certain. Additionally, the ability of the Fund to achieve its investment objective also depends on the continuing ability of the issuers of Tennessee municipal securities and participation interests, or the credit enhancers of either, to meet their obligations for the payment of interest and principal when due.

MANAGEMENT OF THE TRUST

BOARD OF TRUSTEES

The Trust is managed by a Board of Trustees ("Trustees"). The Trustees are responsible for managing the business affairs of the Trust and for exercising all of the powers of Trust except those reserved for the shareholders. The Executive Committee of the Board of Trustees handles the Board's responsibilities between meetings of the Board.

OFFICERS AND TRUSTEES

Officers and Trustees are listed with their addresses, principal occupations, and present positions, including any affiliation with Union Planters National Bank, Federated Investors, Federated Securities Corp., Federated Services Company, and Federated Administrative Services, and the Funds (as defined below).

<TABLE>

<CAPTION>

NAME	POSITIONS WITH THE TRUST	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS
<S>	<C>	<C>
John F. Donahue*	Chairman	Chairman and Trustee, Federated Investors; Chairman and Trustee, Federated Advisers, Federated Management, and Federated Research;
Federated Investors Tower	and Trustee	Director, AETna Life and Casualty Company; Chief Executive Officer and
Pittsburgh, PA		Director, Trustee, or Managing General Partner of the Funds; formerly, Director, The Standard Fire Insurance Company. Mr. Donahue is the father of J. Christopher Donahue, Vice President and Trustee of the Trust.
John T. Conroy, Jr.	Trustee	President, Investment Properties Corporaton; Senior Vice President, John
Wood/IPC Commercial		R. Wood and Associates, Inc., Realtors; President, Northgate Village
Development		Development Corporation; General Partner or Trustee in private real
John R. Wood and		estate ventures in Southwest Florida; Director, Trustee, or Managing
Associates, Inc., Realtors		General Partner of the Funds; formerly, President, Naples Property
3255 Tamiami Trail North		Management, Inc.
Naples, FL		
William J. Copeland	Trustee	Director and Member of the Executive Committee, Michael Baker, Inc.;
One PNC Plaza-23rd Floor		Director, Trustee, or Managing General Partner of the Funds; formerly
Pittsburgh, PA		Vice Chairman and Director, PNC Bank, N.A., and PNC Bank Corp. and
		Director, Ryan Homes, Inc.
James E. Dowd	Trustee	Attorney-at-law; Director, The Emerging Germany Fund, Inc.; Director,
571 Hayward Mill Road		Trustee, or Managing General Partner of the Funds; formerly, Director,

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

</TABLE>

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

\ Members of the Trust's Executive Committee. The Executive Committee of the Board of Trustees handles the responsibilities of the Board of Trustees between meetings of the Board.

FUND OWNERSHIP

Officers and Trustees own less than 1% of the Fund's outstanding shares.

TRUSTEE LIABILITY

The Trust's Declaration of Trust provides that the Trustees will not be liable for errors of judgment or mistakes of fact or law. However, they are not protected against any liability to which they would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of their office.

THE FUNDS

"The Funds" and "Funds" mean the following investment companies: A.T. Ohio Tax-Free Money Fund; American Leaders Fund, Inc.; Annuity Management Series; Automated Cash Management Trust; Automated Government Money Trust; BankSouth Select Funds; The Boulevard Funds; California Municipal Cash Trust; Cash Trust Series Inc.; Cash Trust Series II; DG Investor Series; Edward D. Jones & Co. Daily Passport Cash Trust; FT Series, Inc.; Federated ARMs Fund; Federated Exchange Fund, Ltd.; Federated GNMA Trust; Federated Government Trust; Federated Growth Trust; Federated High Yield Trust; Federated Income Securities Trust; Federated Income Trust; Federated Index Trust; Federated Intermediate Government Trust; Federated Master Trust; Federated Municipal Trust; Federated Short-Intermediate Government Trust; Federated Short-Term U.S. Government Trust; Federated Stock Trust; Federated Tax-Free Trust; Federated U.S. Government Bond Fund; First Priority Funds; Fixed Income Securities, Inc.; Fortress Adjustable Rate U.S. Government Fund, Inc.; Fortress Municipal Income Fund, Inc.; Fortress Utility Fund, Inc.; Fund for U.S. Government Securities, Inc.; Government Income Securities, Inc.; High Yield Cash Trust; Insight Institutional Series, Inc.; Insurance Management Series; Intermediate Municipal Trust; Investment Series Funds, Inc.; Investment Series Trust; Liberty Equity Income Fund, Inc.; Liberty High Income Bond Fund, Inc.; Liberty Municipal Securities Fund, Inc.; Liberty Term Trust, Inc.--1999; Liberty U.S. Government Money Market Trust; Liberty Utility Fund, Inc.; Liquid Cash Trust; Mark Twain Funds; Money Market Management, Inc.; Money Market Obligations Trust; Money Market Trust; Municipal Securities Income Trust; New York Municipal Cash Trust; 111 Corcoran Funds; Portage Funds; RIMCO Monument Funds; The Shawmut Funds; Short Term Municipal Trust; Signet Select Funds; Star Funds; The Starburst Funds; The Starburst Funds II; Stock and Bond Fund, Inc.; Targeted Duration Trust; Tax-Free Instruments Trust; Trademark Funds; Trust for Government Cash Reserves; Trust for Short-Term U.S. Government Securities; and Trust for U.S. Treasury Obligations.

INVESTMENT ADVISORY SERVICES

ADVISER TO THE FUND

The Fund's investment adviser is Union Planters National Bank ("Union Planters" or the "adviser"). Union Planters is a wholly-owned subsidiary of Union Planters Corporation, a multi-bank holding company headquartered in Memphis, Tennessee.

The adviser shall not be liable to the Trust, the Fund or any shareholder of the Fund for any losses that may be sustained in the purchase, holding, or sale of any security, or for anything done or omitted by it, except acts or omissions involving willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties imposed upon it by its contract with the Fund.

From time to time, to the extent consistent with the objective, policies and restrictions of the Fund, the Fund may invest in securities of issuers with which the adviser has a lending relationship.

ADVISORY FEES

For its advisory services, Union Planters receives an annual investment advisory fee as described in the prospectus.

For the period from August 5, 1993 (start of business) to January 31, 1994, the adviser earned advisory fees of \$103,304, of which \$90,600 was voluntarily waived.

STATE EXPENSE LIMITATIONS

The adviser has undertaken to comply with the expense limitations established by certain states for investment companies whose shares are registered for sale in those states. If the Fund's normal operating expenses (including the investment advisory fee, but not including brokerage commissions, interest, taxes, and extraordinary expenses) exceed 2.5% per year of the first \$30 million of average net assets, 2% per year of the next \$70 million of average net assets, and 1.5% per year of the remaining average net assets, the adviser will reimburse the Trust for its expenses over the limitation.

If the Fund's monthly projected operating expenses exceed this expense limitation, the investment advisory fee paid will be reduced by the amount of the excess, subject to an annual adjustment. If the expense limitation is exceeded, the amount to be reimbursed by the adviser will be limited, in any single fiscal year, by the amount of the investment

advisory fee. This arrangement is not part of the advisory contract and may be amended or rescinded in the future.

ADMINISTRATIVE SERVICES

Federated Administrative Services, a subsidiary of Federated Investors, provides administrative personnel and services to the Fund for the fees set forth in the prospectus. John A. Staley, IV, an officer of the Fund, holds approximately 15% of the outstanding common stock and serves as a director of Commercial Data Services, Inc., a company which provides computer processing services to Federated Administrative Services.

For the period from August 5, 1993, (start of business) to January 31, 1994, the administrator earned \$50,254 in administrative costs of which \$44,166 was voluntarily waived.

ADMINISTRATIVE ARRANGEMENTS

The distributor may pay financial institutions a fee based upon the average net asset value of shares of their customers for providing administrative services. This fee, if paid, will be reimbursed by the adviser and not the Fund.

CUSTODIAN

State Street Bank and Trust company, Boston, Massachusetts, is custodian for the securities and cash of the Fund.

BROKERAGE TRANSACTIONS

When selecting brokers and dealers to handle the purchase and sale of portfolio instruments, the adviser looks for prompt execution of the order at a favorable price. In working with dealers, the adviser will generally use those which are recognized dealers in specific portfolio instruments, except when a better price and execution of the order can be obtained elsewhere. The adviser makes decisions on portfolio transactions and selects brokers and dealers subject to review by the Board of Trustees.

The adviser may select brokers and dealers who offer brokerage and research services. These services may be furnished directly to the Fund or to the adviser and may include:

advice as to the advisability of investing in securities;

security analysis and reports;

economic studies;

industry studies;

receipt of quotations for portfolio evaluations; and

similar services.

The adviser and its affiliates exercise reasonable business judgment in selecting brokers who offer brokerage and research services to execute securities transactions. They determine in good faith that commissions charged by such persons are reasonable in relationship to the value of the brokerage and research services provided.

Research services provided by brokers may be used by the adviser and other accounts. To the extent that receipt of these services may supplant services for which the adviser or its affiliates might otherwise have paid, it would tend to reduce their expenses.

From August 5, 1993, (start of business) to January 31, 1994, the Fund paid no commissions on brokerage transactions .

PURCHASING SHARES

Shares of the Fund are sold at their net asset value with a sales charge on days the New York Stock Exchange and Federal Reserve Wire System are open for business. The procedure for purchasing shares is explained in the prospectus under "Investing in the Fund."

DETERMINING NET ASSET VALUE

Net asset value generally changes each day. The days on which net asset value is calculated for the Fund are described in the prospectus.

VALUING MUNICIPAL BONDS

The Trustees use an independent pricing service to value municipal bonds. The independent pricing service takes into consideration yield, stability, risk, quality, coupon rate, maturity, type of issue, trading characteristics, special circumstances of a security or trading market, and any other factors or market data it considers relevant in determining valuations for normal institutional size trading units of debt securities, and does not rely exclusively on quoted prices.

USE OF AMORTIZED COST

The Trustees have decided that the fair value of debt securities authorized to be purchased by the Fund with remaining maturities of 60 days or less at the time of purchase shall be their amortized cost value, unless the particular circumstances of the security indicate otherwise. Under this method, portfolio instruments and assets are valued at the acquisition cost as adjusted for amortization of premium or accumulation of discount rather than at current market value. The Executive Committee continually assesses this method of valuation and recommends changes where necessary to assure that the Fund's portfolio instruments are valued at their fair value as determined in good faith by the Trustees.

REDEEMING SHARES

Shares are redeemed at the next computed net asset value after the Fund receives the redemption request. Redemption procedures are explained in the prospectus under "Redeeming Shares." Although Union Planters does not charge for telephone redemptions, it reserves the right to charge a fee for the cost of wire-transferred redemptions of less than \$5,000.

REDEMPTION IN KIND

The Fund has elected to be governed by Rule 18f-1 of the Investment Company Act of 1940 under which the Fund is obligated to redeem shares for any one shareholder in cash only up to the lesser of \$250,000 or 1% of the Fund's net asset value during any 90-day period.

Any redemption beyond this amount will also be in cash unless the Trustees determine that payments should be in kind. In such a case, the Fund will pay all or a portion of the remainder of the redemption in portfolio instruments, valued in the same way as the Fund determines net asset value. The portfolio instruments will be selected in a manner that the Trustees deem fair and equitable. To the extent available, such securities will be readily marketable.

Redemption in kind is not as liquid as a cash redemption. If redemption is made in kind, shareholders receiving their securities and selling them before their maturity could receive less than the redemption value of their securities and could incur certain transactions costs.

TAX STATUS

THE FUND'S TAX STATUS

The Fund will pay no federal income tax because it expects to meet the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies and to receive the special tax treatment afforded to such companies. To qualify for this treatment, the Fund must, among other requirements:

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

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

invest in securities within certain statutory limits; and

distribute to its shareholders at least 90% of its net income earned during the year.

SHAREHOLDER'S TAX STATUS

No portion of any income dividend paid by the Fund is eligible for the dividends received deduction available to corporations.

CAPITAL GAINS

Capital gains or losses may be realized by the Fund on the sale of portfolio securities and as a result of discounts from par value on

securities held to maturity. Sales would generally be made because of:

- the availability of higher relative yields;
- differentials in market values;
- new investment opportunities;
- changes in creditworthiness of an issuer; or
- an attempt to preserve gains or limit losses.

Distributions of long-term capital gains are taxed as such, whether they are taken in cash or reinvested, and regardless of the length of time that the shareholder has owned shares. Any loss by a shareholder on shares held for less than six months and sold after a capital gains distribution will be treated as a long-term capital loss to the extent of the capital gains distribution.

TOTAL RETURN

Cumulative total return reflects the Fund's total performance over a specific period of time. The cumulative total return for the Fund for the period from August 30, 1993, (date of initial public investment) to January 31, 1994 was 4.84%. This total return is representative of only five months of activity since the date of initial public investment.

The average annual total return for the Fund is the average compounded rate of return for a given period that would equate a \$1,000 initial investment to the ending redeemable value of that investment. The ending redeemable value is computed by multiplying the number of shares owned at the end of the period by the net asset value per share at the end of the period. The number of shares owned at the end of the period is based on the number of shares purchased at the beginning of the period with \$1,000, less any applicable sales load, adjusted over the period by any additional shares, assuming the monthly reinvestment of all dividends and distributions.

YIELD

The Funds' yield for the thirty-day period ended January 31, 1994, was 4.06% based on offer price.

The yield for the Fund is determined by dividing the net investment income per share (as defined by the Securities and Exchange Commission) earned by the Fund over a thirty-day period by the maximum offering price per share of the Fund on the last day of the period. This value is then annualized using semi-annual compounding. This means that the amount of income generated during the thirty-day period is assumed to be generated each month over a twelve-month period and is reinvested every six months. The yield does not necessarily reflect income actually earned by the Fund because of certain adjustments required by the Securities and Exchange Commission and therefore, may not correlate to the dividends or other distributions paid to shareholders.

To the extent that financial institutions and broker/dealers charge fees in connection with services provided in conjunction with an investment in the Fund, performance will be reduced for those shareholders paying those fees.

TAX-EQUIVALENT YIELD

The Funds' tax-equivalent yield for the thirty-day period ended January 31, 1994 was 6.15%.

The tax-equivalent yield of the Fund is calculated similarly to the yield, but is adjusted to reflect the taxable yield that the Fund would have had to earn to equal its actual yield, assuming a state and federal combined tax rate of 34%, and assuming that income is 100% tax-exempt.

TAX-EQUIVALENCY TABLE

The Fund may also use a tax-equivalency table in advertising and sales literature. The interest earned by the municipal obligations in the Fund's portfolio generally remains free from federal regular income tax, and often is free from taxes imposed by the state of Tennessee and Tennessee municipalities.* As the table below indicates, a "tax-free" investment is an attractive choice for investors, particularly in times of narrow spreads between tax-free and taxable yields.

* Some portion of the Fund's income may be subject to the federal alternative minimum tax and state and local taxes. However, the Fund has no current intention to generate taxable income.

<TABLE>
<CAPTION>

TAXABLE YIELD EQUIVALENT FOR 1994
STATE OF TENNESSEE

TAX BRACKET:					
<S>	<C>	<C>	<C>	<C>	<C>
FEDERAL:	15.00%	28.00%	31.00%	36.00%	39.60%
COMBINED FEDERAL AND STATE:	21.00%	34.00%	37.00%	42.00%	45.60%
JOINT RETURN:	\$1-38,000	\$38,001-91,850	\$91,851-140,000	\$140,001-250,000	OVER \$250,000
SINGLE RETURN:	\$1-22,175	\$22,751-55,100	\$55,101-140,000	\$140,001-250,000	OVER \$250,000

<CAPTION>

TAX-EXEMPT YIELD		TAXABLE YIELD EQUIVALENT					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	
1.50%	1.90%	2.27%	2.38%	2.59%	2.76%		
2.00	2.53	3.03	3.17	3.45	3.68		
2.50	3.16	3.79	3.97	4.31	4.60		
3.00	3.80	4.55	4.76	5.17	5.51		
3.50	4.43	5.30	5.56	6.03	6.43		
4.00	5.06	6.06	6.35	6.90	7.35		
4.50	5.70	6.82	7.14	7.76	8.27		
5.00	6.33	7.58	7.94	8.62	9.19		
5.50	6.96	8.33	8.73	9.48	10.11		
6.00	7.59	9.09	9.52	10.34	11.03		

</TABLE>

Note: The maximum marginal tax rate for each bracket was used in calculating the taxable yield equivalent. Furthermore, additional state and local taxes paid on comparable taxable investments were not used to increase federal deductions. If you itemize deductions, your taxable yield equivalent will be lower.

The chart above is for illustrative purposes only. It is not an indicator of past or future performance of Fund shares.

* Some portion of the Fund's income may be subject to the federal alternative minimum tax and state and local income taxes.

PERFORMANCE COMPARISONS

The performance of the Fund depends upon such variables as:

portfolio quality;

average portfolio maturity;

type of instruments in which the portfolio is invested;

changes in interest rates and market value of portfolio securities;

changes in the Fund's expenses; and

various other factors.

The Fund's performance fluctuates on a daily basis largely because net earnings and net asset value per share fluctuate daily. Both net earnings and net asset value per share are factors in the computation of yield and total return as described above.

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

LIPPER ANALYTICAL SERVICES, INC. ranks funds in various fund categories by making comparative calculations using total return. Total return assumes the reinvestment of all capital gains distributions and income dividends and takes into account any change in net asset value over a specific period of time.

MORNINGSTAR, INC., an independent rating service, is the publisher of the bi-weekly Mutual Fund Values. Mutual Fund Values rates more than 1,000 NASDAQ-listed mutual funds of all types, according to their risk-adjusted returns. The maximum rating is five stars, and ratings are effective for two weeks.

Advertisements and other sales literature for the Fund may quote total returns which are calculated on non-standardized base periods. The total returns represent the historic change in the value of an investment in the Fund based on monthly reinvestment of dividends over a specified period of time.

Advertisements may quote performance information which does not reflect the effect of the sales load.

APPENDIX

STANDARD AND POOR'S CORPORATION MUNICIPAL BOND RATINGS

AAA--Debt rated "AAA" has the highest rating assigned by Standard & Poor's Corporation. Capacity to pay interest and repay principal is extremely strong.

AA--Debt rated "AA" has a very strong capacity to pay interest and repay principal and differs from the higher rated issues only in small degree.

A--Debt rated "A" has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.

BBB--Debt rated "BBB" is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

NR--Indicates that no public rating has been requested, that there is insufficient information on which to base a rating, or that S&P does not rate a particular type of obligation as a matter of policy.

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

MOODY'S INVESTORS SERVICE, INC., MUNICIPAL BOND RATINGS

Aaa--Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa--Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.

A--Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate but elements may be present which suggest a susceptibility to impairment sometime in the future.

Baa--Bonds which are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

NR--Not rated by Moody's.

Moody's applies numerical modifiers, 1, 2 and 3 in each generic rating classification from Aa through B in its generic rating category; the modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

FITCH INVESTORS SERVICE, INC. LONG-TERM DEBT RATINGS

AAA--Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

AA--Bonds considered to be investment grade and of very high quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated "AAA". Because bonds rated in the "AAA" and "AA" categories are not significantly vulnerable to foreseeable future

developments, short-term debt of these issuers is generally rated F-1+.

A--Bonds considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

BBB--Bonds considered to be investment grade and of satisfactory credit quality. The obligor's ability to pay interest and repay principal is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to have adverse impact on these bonds, and therefore, impair timely payment.

NR--NR indicates that Fitch does not rate the specific issue.

Plus (+) or minus (-): Plus and minus signs are used with a rating symbol to indicate the relative position of a credit within the rating category. Plus and minus signs, however, are not used in the "AAA" category.

STANDARD AND POOR'S MUNICIPAL NOTE RATINGS

SP-1--Very strong or strong capacity to pay principal and interest. Those issues determined to possess overwhelming safety characteristics will be given a plus (+) designation.

SP-2--Satisfactory capacity to pay principal and interest.

MOODY'S INVESTORS SERVICE, INC., SHORT-TERM LOAN RATINGS

MIG1/VMIG1--This designation denotes best quality. There is a present strong protection by established cash flows, superior liquidity support or demonstrated broadbased access to the market for refinancing.

MIG2/VMIG2--This designation denotes high quality. Margins of protection are ample although not so large as in the preceding group.

FITCH INVESTORS SERVICE, INC. SHORT-TERM DEBT RATINGS

F-1+--Exceptionally Strong Credit Quality. Issues assigned this rating are regarded as having the strongest degree of assurance for timely payment.

F-1--Very Strong Credit Quality. Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than issues rated F-1+.

F-2--Good Credit Quality. Issues carrying this rating have a satisfactory degree of assurance for timely payment, but the margin of safety is not as great as the F-1+ and F-1 categories.

STANDARD AND POOR'S CORPORATION COMMERCIAL PAPER RATINGS

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

A-2--Capacity for timely payment on issues with this designation is satisfactory. However, the relative degree of safety is not as high as for issues designated A-1.

MOODY'S INVESTORS SERVICE, INC., COMMERCIAL PAPER RATINGS

PRIME-1--Issuers rated PRIME-1 (or related supporting institutions) have a superior capacity for repayment of short-term promissory obligations. PRIME-1 repayment capacity will normally be evidenced by the following characteristics:

Leading market positions in well established industries.

High rates of return on funds employed.

Conservative capitalization structure with moderate reliance on debt and ample asset protection.

Broad margins in earning coverage of fixed financial charges and high internal cash generation.

Well-established access to a range of financial markets and assured sources of alternate liquidity.

PRIME-2--Issuers rated PRIME-2 (or related supporting institutions) have a strong capacity for repayment of short-term promissory obligations. This will normally be evidenced by many of the characteristics cited above, but to a lesser degree. Earnings trends and coverage ratios, while sound, will be more subject to variation. Capitalization characteristics, while still appropriate,

may be more affected by external conditions. Ample alternate liquidity is maintained.

3072709B (2/94)