FORM 497

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FILER

INVESTMENT SERIES FUNDS INC

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Business Address
FEDERATED INVESTORS TOWER
PITTSBURGH PA 15222-3779
4122881401

FEDERATED BOND FUND
(FORMERLY, FORTRESS BOND FUND)
(A PORTFOLIO OF INVESTMENT SERIES FUNDS, INC.)
CLASS A SHARES
CLASS B SHARES
CLASS C SHARES
COMBINED PROSPECTUS

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

The investment objective of the Fund is to provide as high a level of current income as is consistent with the preservation of capital by investing primarily in a portfolio of investment grade bonds.

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

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

The Fund has also filed with the Securities and Exchange Commission a Combined Statement of Additional Information dated June 27, 1995 for Class A Shares, Class B Shares, Class C Shares, and Fortress Shares. The information contained in the Combined Statement of Additional Information is incorporated by reference into this prospectus. You may request a copy of the Combined Statement of Additional Information free of charge by calling 1-800-235-4669. To obtain other information, or to make inquiries about the Fund, contact your financial institution.

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

Prospectus dated June 27, 1995

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SUMMARY OF FUND EXPENSES
FEDERATED BOND FUND
(FORMERLY, FORTRESS BOND FUND)

<TABLE>
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CLASS A SHARES SHAREHOLDER TRANSACTION EXPENSES	
<S>	<C>
Maximum Sales Load Imposed on Purchases (as a percentage of offering price)	4.50%
Maximum Sales Load Imposed on Reinvested Dividends (as a percentage of offering price)	None
Contingent Deferred Sales Charge (as a percentage of original purchase price or redemption proceeds, as applicable)(1)	0.00%
Redemption Fee (as a percentage of amount redeemed, if applicable)	None
Exchange Fee	None
ANNUAL CLASS A SHARES OPERATING EXPENSES* (As a percentage of average net assets)	
Management Fee (after waiver) (2)	0.48%
12b-1 Fee (3)	None
Total Other Expenses	0.52%
Shareholder Services Fee (after waiver) (4)	0.20%
Total Class A Shares Operating Expenses (5)	1.00%

</TABLE>

(1) Shareholders who purchased shares with the proceeds of a redemption of shares of an unaffiliated investment company purchased and sold with a sales load and not distributed by Federated Securities Corp. may be charged a contingent deferred sales charge of 0.50 of 1% for redemptions made within one year of purchase.

(2) The estimated management fee has been reduced to reflect the anticipated voluntary waiver of a portion of the management fee. The adviser can terminate this voluntary waiver at any time at its sole discretion. The maximum management fee is 0.75%

(3) Class A Shares has no present intention of paying or accruing the 12b-1 fee during the fiscal year ending October 31, 1995. If Class A Shares were paying or accruing the 12b-1 fee, Class A Shares would be able to pay up to 0.25% of its average daily net assets for the 12b-1 fee. See "Investment Series Funds, Inc. Information".

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

(5) The total Class A Shares operating expenses are estimated to be 1.38% absent

the anticipated voluntary waiver of the management fee and a portion of the shareholder services fee.

* Total Class A Shares operating expenses in the table above are estimated based on average expenses expected to be incurred during the period ending October 31, 1995. 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 CLASS A SHARES WILL BEAR, EITHER DIRECTLY OR INDIRECTLY. FOR MORE COMPLETE DESCRIPTIONS OF THE VARIOUS COSTS AND EXPENSES, SEE "INVESTING IN CLASS A SHARES" AND "INVESTMENT SERIES FUNDS, INC. INFORMATION." Wire-transferred redemptions of less than $5,000 may be subject to additional fees.

<TABLE>
<CAPTION>

EXAMPLE	1 year	3 years
You would pay the following expenses on a $1,000 investment, assuming (1) 5% annual return and (2) redemption at the end of each time period	$60	$75

</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. THIS EXAMPLE IS BASED ON ESTIMATED DATA FOR CLASS A SHARES FISCAL YEAR ENDING OCTOBER 31, 1995.

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SUMMARY OF FUND EXPENSES
FEDERATED BOND FUND
(FORMERLY, FORTRESS BOND FUND)

<TABLE>
<CAPTION>

CLASS B SHARES	
SHAREHOLDER TRANSACTION EXPENSES	
Maximum Sales Load Imposed on Purchases (as a percentage of offering price)	None
Maximum Sales Load Imposed on Reinvested Dividends (as a percentage of offering price)	None
Contingent Deferred Sales Charge (as a percentage of original purchase price or redemption proceeds, as applicable) (1)	5.50%
Redemption Fee (as a percentage of amount redeemed, if applicable)	None
Exchange Fee	None
ANNUAL CLASS B SHARES OPERATING EXPENSES* (As a percentage of average net assets)	
Management Fee (after waiver) (2)	0.48%
12b-1 Fee	0.75%
Total Other Expenses	0.57%
Shareholder Services Fee (after waiver)	0.25%
Total Class B Shares Operating Expenses (3)(4)	1.80%

</TABLE>

(1) The contingent deferred sales charge is 5.50% in the first year declining to 1.00% in the sixth year and 0.00% thereafter. (See "Contingent Deferred Sales Charge").

(2) The estimated management fee has been reduced to reflect the anticipated voluntary waiver of a portion of the management fee. The adviser can terminate this voluntary waiver at any time at its sole discretion. The maximum management fee is 0.75%

(3) Class B Shares convert to Class A Shares (which pay lower ongoing expenses) approximately eight years after purchase.

(4) The total Class B Shares operating expenses are estimated to be 2.13% absent the anticipated voluntary waiver of the management fee.

* Total Class B Shares operating expenses in the table above are estimated based on average expenses expected to be incurred during the period ending October 31, 1995. 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 CLASS B SHARES WILL BEAR,

EITHER DIRECTLY OR INDIRECTLY. FOR MORE COMPLETE DESCRIPTIONS OF THE VARIOUS COSTS AND EXPENSES, SEE "INVESTING IN CLASS B SHARES" AND "INVESTMENT SERIES FUNDS, INC. INFORMATION." Wire-transferred redemptions of less than $5,000 may be subject to additional fees.

<TABLE>
<CAPTION>

<S> EXAMPLE	<C> 1 year	<C> 3 years
You would pay the following expenses on a $1,000 investment assuming (1) 5% annual return and (2) redemption at the end of each time period.........	$75	$101
You would pay the following expenses on the same investment, assuming no redemption....	$18	$57

</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. THIS EXAMPLE IS BASED ON ESTIMATED DATA FOR CLASS B SHARES' FISCAL YEAR ENDING OCTOBER 31, 1995.

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SUMMARY OF FUND EXPENSES
FEDERATED BOND FUND
(FORMERLY, FORTRESS BOND FUND)

<TABLE>
<CAPTION>

CLASS C SHARES
SHAREHOLDER TRANSACTION EXPENSES

<S>	<C>
Maximum Sales Load Imposed on Purchases (as a percentage of offering price)................	None
Maximum Sales Load Imposed on Reinvested Dividends (as a percentage of offering price).....	None
Contingent Deferred Sales Charge (as a percentage of original purchase price or redemption proceeds, as applicable) (1)...............................	1.00%
Redemption Fee (as a percentage of amount redeemed, if applicable).........................	None
Exchange Fee..	None

ANNUAL CLASS C SHARES OPERATING EXPENSES*
(As a percentage of average net assets)

Management Fee (after waiver) (2)..	0.48%
12b-1 Fee..	0.75%
Total Other Expenses...	0.57%
Shareholder Services Fee (after waiver)..	0.25%
Total Class C Shares Operating Expenses (3)......................................	1.80%

</TABLE>

(1) The contingent deferred sales charge assessed is 1.00% of the lesser of the original purchase price or the net asset value of Shares redeemed within one year of their purchase date. (See "Contingent Deferred Sales Charge").

(2) The estimated management fee has been reduced to reflect the anticipated voluntary waiver of a portion of the management fee. The adviser can terminate this voluntary waiver at any time at its sole discretion. The maximum management fee is 0.75%.

(3) The total Class C Shares operating expenses are estimated to be 2.13% absent the anticipated voluntary waiver of the management fee.

* Total Class C Shares operating expenses in the table above are estimated based on average expenses expected to be incurred during the period ending October 31, 1995. 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 CLASS C SHARES WILL BEAR, EITHER DIRECTLY OR INDIRECTLY. FOR MORE COMPLETE DESCRIPTIONS OF THE VARIOUS COSTS AND EXPENSES, SEE "INVESTING IN CLASS C SHARES" AND "INVESTMENT SERIES FUNDS, INC. INFORMATION." Wire-transferred redemptions of less than $5,000 may be subject to additional fees.

<TABLE>
<CAPTION>

<S> EXAMPLE	<C> 1 year	<C> 3 years
You would pay the following expenses on a $1,000 investment assuming (1) 5% annual return and (2) redemption at the end of each time period....................	$29	$57
You would pay the following expenses on the same investment, assuming no redemption.......	$18	$57

</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. THIS EXAMPLE IS BASED ON ESTIMATED DATA FOR CLASS C SHARES' FISCAL YEAR ENDING OCTOBER 31, 1995.

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SYNOPSIS

The Corporation was organized under the laws of the State of Maryland on May 20, 1992. Prior to February 5, 1993, the Fund was operated as a portfolio of Investment Series Trust, a Massachusetts business trust established pursuant to a Declaration of Trust dated March 17, 1987. On February 3, 1993, the shareholders of the Fund voted to reorganize the Fund as a portfolio of the Corporation. On June 15, 1992, the shareholders of High Income Securities Fund approved a change to the investment objective of the Fund, as well as the name change of the Fund to Fortress Bond Fund. On June 27, 1995, the name of the Fund was changed to Federated Bond Fund. The Articles of Incorporation permit the Fund 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 Board of Directors (the "Directors") has established four classes of shares, known as Class A Shares, Class B Shares, Class C Shares (individually and collectively referred to, as the context requires, as "Shares"), and Fortress Shares. This prospectus relates only to the Class A Shares, Class B Shares, and Class C Shares of the Fund.

Shares of the Fund are designed primarily for individuals and institutions seeking as high a level of current income as is consistent with the preservation of capital by investing in a portfolio of investment grade bonds.

For information on how to purchase the Shares offered by this prospectus, please refer to "Investing in the Fund." The minimum initial investment for Class A Shares is $500. The minimum initial investment for Class B Shares and Class C Shares is $1,500. However, the minimum initial investment for a retirement account in any class is $50. Subsequent investments in any class must be in amounts of at least $100, except for retirement plans which must be in amounts of at least $50.

Class A Shares are sold at net asset value plus an applicable sales load and are redeemed at net asset value. However, a contingent deferred sales charge is imposed under certain circumstances. For a more complete description, see "Redeeming Shares."

Class B Shares are sold at net asset value and are redeemed at net asset value. However, a contingent deferred sales charge is imposed on certain Shares which are redeemed within six full years of purchase. See "Redeeming Shares."

Class C Shares are sold at net asset value. A contingent deferred sales charge of 1.00% will be charged on assets redeemed within the first 12 months following purchase. See "Redeeming Shares."

Additionally, information regarding the exchange privilege offered with respect to the Fund and certain other funds for which affiliates of Federated Investors serve as principal underwriter ("Federated Funds") can be found under "Exchange Privilege."

Federated Advisers is the investment adviser (the "Adviser") to the Fund and receives compensation for its services.

Investors should be aware of the following general observations. The Fund may make certain investments and employ certain investment techniques that involve risks, including entering into repurchase agreements, investing in when-issued securities, and lending portfolio securities. These risks are described under "Investment Policies."

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

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LIBERTY FAMILY OF FUNDS

Class A, Class B, and Class C shares of the Fund are members of a family of mutual funds, collectively known as the Liberty Family of Funds. The other funds in the Liberty Family of Funds are:

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

Capital Growth Fund, providing appreciation of capital primarily through equity securities;

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

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

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

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

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

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

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

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

Limited Term Fund, providing a high level of current income consistent with minimum fluctuation in principal through investment grade securities;

Limited Term Municipal Fund, providing a high level of current income exempt from federal regular income tax consistent with the preservation of principal, primarily limited to municipal securities;

Michigan Intermediate Municipal Trust, providing current income exempt from federal regular income tax and personal income taxes imposed by the State of Michigan and Michigan municipalities, primarily through Michigan municipal securities;

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

Strategic Income Fund, (Fortress Shares only), providing high current income through investing in domestic corporate debt obligations, U.S. government securities, and foreign government and corporate debt obligations;

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

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

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

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

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

Shareholders of Class A Shares who have been designated as Liberty Life Members are exempt from sales loads on future purchases in, and exchanges between, the Class A Shares of any Liberty Fund so long as they maintain a $500 balance in one of the Liberty Funds.

FEDERATED LIFETRACKTM PROGRAM (CLASS A SHARES AND CLASS C SHARES)

The Fund is also a member of the Federated LifeTrackTM Program (the "Program") sold through financial representatives. The Program is an integrated program of investment options, plan recordkeeping, and consultation services for 401(k) and other participant-directed benefit and savings plans. Under the Program, employers or plan trustees may select a group of investment options to be offered in a plan which also uses the Program for recordkeeping and administrative services. Additional fees are charged to participating plans for these services. As part of the Program, exchanges may readily be made between investment options selected by the employer or a plan trustee. For further information about participating in the Federated LifeTrackTM Program please contact an investment professional or the Fund at the address referenced on the inside back cover of this prospectus.

Other funds available through the Federated LifeTrackTM Program are: American Leaders Fund, Inc.; Capital Growth Fund; Capital Preservation Fund; Fund for U.S. Government Securities, Inc.; International Equity Fund; International Income Fund; Liberty Equity Income Fund, Inc.; Liberty High Income Bond Fund, Inc.; Liberty Utility Fund, Inc.; Prime Cash Series; Stock and Bond Fund, Inc.; and Strategic Income Fund.

With respect to Class A Shares, no sales load is imposed on purchases made by qualified retirement plans with over $1 million invested in funds participating in the Federated LifeTrackTM Program.

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INVESTMENT INFORMATION

INVESTMENT OBJECTIVE

The investment objective of the Fund is to provide as high a level of current income as is consistent with the preservation of capital. While there is no assurance that the Fund will achieve its investment objective, it endeavors to do so by following the investment policies described in this prospectus. The investment objective stated above cannot be changed without the approval of shareholders. Unless stated otherwise, the investment policies of the Fund described below may be changed without shareholder approval. As a matter of investment policy, the Fund will invest, under normal circumstances, at least 65% of the value of its total net assets in investment grade bonds. Investment grade bonds are generally described as bonds that are rated in one of the top four rating categories by a nationally recognized statistical rating organization ("NRSRO"), such as Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Group ("S&P"), or Fitch Investors Service, Inc. ("Fitch"). A description of the ratings categories is contained in the Appendix to the Prospectus.

INVESTMENT POLICIES

ACCEPTABLE INVESTMENTS

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

corporate debt obligations (as a matter of operating policy, the lowest rated corporate debt obligations, including zero coupon convertible securities, in which the Fund will invest will be rated B or better by an NRSRO, or which are of comparable quality in the judgment of the Fund's investment adviser);

obligations of the United States;

notes, bonds, and discount notes of the following U.S. government agencies or instrumentalities, such as Federal Home Loan Banks, Federal National Mortgage Association, Government National Mortgage Association, Farm Credit System (including the National Bank for Cooperatives and Banks for Cooperatives), Tennessee Valley Authority, Export-Import Bank of the United States, Commodity Credit Corporation, Federal Financing Bank, Student Loan Marketing Association, Federal Home Loan Mortgage Corporation, or National Credit Union Administration;

taxable municipal debt obligations (as a matter of operating policy, the lowest rated municipal debt obligations in which the Fund will invest will be rated BBB or better by an NRSRO, or which are of comparable quality in the judgment of the Fund's investment adviser);

asset-backed securities;

commercial paper that matures in 270 days or less and is rated A-1 or A-2 by S&P, P-1 or P-2 by Moody's, or F-1 or F-2 by Fitch;

time and savings deposits (including certificates of deposit) in commercial or savings banks whose accounts are insured by the Bank Insurance Fund ("BIF"), or in institutions whose accounts are insured by the Savings Association Insurance Fund ("SAIF"), including certificates of deposit issued by, and other time deposits in, foreign branches of BIF-insured banks which, if negotiable, mature in six months or less or if not negotiable, either mature in ninety days or less, or may be withdrawn upon notice not exceeding ninety days;

bankers' acceptances issued by a BIF-insured bank, or issued by the bank's Edge Act subsidiary and guaranteed by the bank, with remaining maturities of nine months or less. The total acceptances of any bank held by the Fund cannot exceed 0.25% of such bank's total deposits

according to the bank's last published statement of condition preceding the date of acceptance;

preferred stock and other equity-related securities which generally have bond-like attributes, including zero coupon and/or convertible securities;

other securities which are deemed by the Fund's investment adviser, Federated Advisers (the "Adviser"), to be consistent with the Fund's investment objective; and

repurchase agreements collateralized by acceptable investments.

CORPORATE DEBT OBLIGATIONS

Although the Fund will invest primarily in corporate debt obligations that are rated as investment grade by a NRSRO, or are determined to be comparable quality in the judgment of the Adviser, the Fund may invest up to 35% of the value of its total assets in corporate debt obligations that are not investment grade bonds, but are rated B or better by an NRSRO (i.e., "junk bonds"). Corporate debt obligations that are not determined to be investment grade are high-yield, high-risk bonds, typically subject to greater market fluctuations and greater risk of loss of income and principal due to an issuer's default. To a greater extent than investment grade bonds, lower rated bonds tend to reflect short-term corporate, economic, and market developments, as well as investor perceptions of the issuer's credit quality. In addition, lower rated bonds may be more difficult to dispose of or to value than higher rated, lower-yielding bonds. Bonds rated "BBB" by S&P or Fitch, or "Baa" by Moody's, have speculative characteristics. Changes in economic conditions or other circumstances are more likely to lead to weakened capacity to make principal and interest payments than higher rated bonds.

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

CREDIT RATING	AS A PERCENTAGE OF TOTAL MARKET VALUE OF BOND HOLDINGS AS OF DECEMBER 31, 1994
BB...................	6.8%
B....................	26.5
CC & CCC.............	.8
	34.1%

U.S. GOVERNMENT OBLIGATIONS

The U.S. government obligations in which the Fund invests are either issued or guaranteed by the U.S. government, its agencies, or instrumentalities. These securities include, but are not limited to:

direct obligations of the U.S. Treasury, such as U.S. Treasury bills, notes, and bonds; and

notes, bonds, and discount notes of U.S. government agencies or instrumentalities, such as the Federal Farm Credit System, Federal Home Loan Banks System, Federal National Mortgage Association, Student Loan Marketing Association, and Federal Home Loan Mortgage Corporation.

Some obligations issued or guaranteed by agencies or instrumentalities of the U.S. government, such as Government National Mortgage Association participation certificates, are backed by the full faith and credit of the U.S. Treasury. No assurances can be given that the U.S. government will provide financial support to other agencies or instrumentalities, since it is not obligated to do so. These agencies and instrumentalities are supported by:

the issuer's right to borrow an amount limited to a specific line of credit from the U.S. Treasury;

discretionary authority of the U.S. government to purchase certain obligations of an agency or instrumentality; or

the credit of the agency or instrumentality.

MUNICIPAL SECURITIES

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. 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.

ASSET-BACKED SECURITIES

Asset-backed securities are created by the grouping of certain governmental, government related and private loans, receivables and other lender assets including vehicle installment purchase obligations and credit card receivables into pools. Interests in these pools are sold as individual securities and are not backed or guaranteed by the U.S. government and may not be secured. Payments from the asset pools may be divided into several different tranches of debt securities, with some tranches entitled to receive regular installments of principal and interest, other tranches entitled to receive regular installments of interest, with principal payable at maturity or upon specified call dates, and other tranches only entitled to receive payments of principal and accrued interest at maturity or upon specified call dates. Different tranches of securities will bear different interest rates, which may be fixed or floating.

Because the loans held in the asset pool often may be prepaid without penalty or premium, asset-backed securities are generally subject to higher prepayment risks than most other types of debt instruments. Prepayment risks on mortgage securities tend to increase during periods of declining mortgage interest rates, because many borrowers refinance their mortgages to take advantage of the more favorable rates. Depending upon market conditions, the yield that the Fund receives from the reinvestment of such prepayments, or any scheduled principal payments, may be lower than the yield on the original mortgage security. As a consequence, mortgage securities may be a less effective means of "locking in" interest rates than other types of debt securities having the same stated maturity and may also have less potential for capital appreciation. For certain types of asset pools, such as collateralized mortgage obligations, prepayments may be allocated to one tranch of securities ahead of other tranches, in order to reduce the risk of prepayment for the other tranches.

Prepayments may result in a capital loss to the Fund to the extent that the prepaid mortgage securities were purchased at a market premium over their stated amount. Conversely, the prepayment of mortgage securities purchased at a market discount from their stated principal amount will accelerate the recognition of interest income by the Fund, which would be taxed as ordinary income when distributed to the shareholders.

The credit characteristics of asset-backed securities also differ in a number of respects from those of traditional debt securities. The credit quality of most asset-backed securities depends primarily upon the credit quality of the assets underlying such securities, how well the entity issuing the securities is insulated from the credit risk of the originator or any other affiliated entities, and the amount and quality of any credit enhancement to such securities.

NON-MORTGAGE RELATED ASSET-BACKED SECURITIES

The Fund may invest in non-mortgage related asset-backed securities including, but not limited to, interests in pools of receivables, such as credit card and accounts receivable and motor vehicle and other installment purchase obligations and leases. These securities may be in the form of pass-through instruments or asset-backed obligations. The securities, all of which are issued by non-governmental entities and carry no direct or indirect government guarantee, are structurally similar to collateralized mortgage obligations and mortgage pass-through securities, which are described below.

MORTGAGE RELATED ASSET-BACKED SECURITIES

The Fund may also invest in various mortgage-related asset-backed securities. These types of investments may include adjustable rate mortgage securities, collateralized mortgage obligations, real estate mortgage investment conduits, or other securities collateralized by or representing an interest in real estate mortgages (collectively, "mortgage securities"). Many mortgage securities are issued or guaranteed by government agencies.

ADJUSTABLE RATE MORTGAGE SECURITIES ("ARMS")

ARMs are pass-through mortgage securities representing interests in adjustable rather than fixed interest rate mortgages. The ARMs in which the Fund invests are issued by the Government National Mortgage Association ("GNMA"), the Federal National Mortgage Association ("FNMA"), and the Federal Home Loan Mortgage

Corporation ("FHLMC") and are actively traded. The underlying mortgages which collateralize ARMs issued by GNMA are fully guaranteed by the Federal Housing Administration ("FHA") or Veterans Administration ("VA"), while those collateralizing ARMs issued by FHLMC or FNMA are typically conventional residential mortgages conforming to strict underwriting size and maturity constraints.

COLLATERALIZED MORTGAGE OBLIGATIONS ("CMOS")

CMOs are bonds issued by single-purpose, stand-alone finance subsidiaries or trusts of financial institutions, government agencies, investment bankers, or companies related to the construction industry. CMOs purchased by the Fund may be:

collateralized by pools of mortgages in which each mortgage is guaranteed as to payment of principal and interest by an agency or instrumentality of the U.S. government;

collateralized by pools of mortgages in which payment of principal and interest is guaranteed by the issuer and such guarantee is collateralized by U.S. government securities; or

securities in which the proceeds of the issuance are invested in mortgage securities and payment of the principal and interest is supported by the credit of an agency or instrumentality of the U.S. government.

All CMOs purchased by the Fund are investment grade, as rated by a NRSRO.

REAL ESTATE MORTGAGE INVESTMENT CONDUITS ("REMICS")

REMICs are offerings of multiple class real estate mortgage-backed securities which qualify and elect treatment as such under provisions of the Internal Revenue Code, as amended (the "Code"). Issuers of REMICs may take several forms, such as trusts, partnerships, corporations, associations, or segregated pools of mortgages. Once REMIC status is elected and obtained, the entity is not subject to federal income taxation. Instead, income is passed through the entity and

is taxed to the person or persons who hold interests in the REMIC. A REMIC interest must consist of one or more classes of "regular interests," some of which may offer adjustable rates of interest, and a single class of "residual interests." To qualify as a REMIC, substantially all the assets of the entity must be in assets directly or indirectly secured principally by real property.

RESETS OF INTEREST

The interest rates paid on the ARMs, CMOs, and REMICs in which the Fund invests generally are readjusted at intervals of one year or less to an increment over some predetermined interest rate index. There are two main categories of indices: those based on U.S. Treasury securities and those derived from a calculated measure, such as a cost of funds index or a moving average of mortgage rates. Commonly utilized indices include the one-year and five-year constant maturity Treasury Note rates, the three-month Treasury Bill rate, the 180-day Treasury Bill rate, rates on longer-term Treasury securities, the National Median Cost of Funds, the one-month or three-month London Interbank Offered Rate (LIBOR), the prime rate of a specific bank, or commercial paper rates. Some indices, such as the one-year constant maturity Treasury Note rate, closely mirror changes in market interest rate levels. Others tend to lag changes in market rate levels and tend to be somewhat less volatile.

To the extent that the adjusted interest rate on the mortgage security reflects current market rates, the market value of an adjustable rate mortgage security will tend to be less sensitive to interest rate changes than a fixed rate debt security of the same stated maturity. Hence, adjustable rate mortgage securities which use indices that lag changes in market rates should experience greater price volatility than adjustable rate mortgage securities that closely mirror the market. Certain residual interest tranches of CMOs may have adjustable interest rates that deviate significantly from prevailing market rates, even after the interest rate is reset, and are subject to correspondingly increased price volatility. In the event the Fund purchases such residual interest mortgage securities, it will factor in the increased interest and price volatility of such securities when determining its dollar-weighted average duration.

CAPS AND FLOORS

The underlying mortgages which collateralize the ARMs, CMOs, and REMICs in which the Fund invests will frequently have caps and floors which limit the maximum amount by which the loan rate to the residential borrower may change up or down: (1) per reset or adjustment interval, and (2) over the life of the loan. Some residential mortgage loans restrict periodic adjustments by limiting changes in the borrower's monthly principal and interest payments rather than limiting interest rate changes.

These payment caps may result in negative amortization. The value of mortgage securities in which the Fund invests may be affected if market interest rates rise or fall faster and farther than the allowable caps or floors on the underlying residential mortgage loans. Additionally, even though the interest rates on the underlying residential mortgages are adjustable, amortization and prepayments may occur, thereby causing the effective maturities of the mortgage securities in which the Fund invests to be shorter than the maturities stated in the underlying mortgages.

BANK INSTRUMENTS

The Fund only invests in bank instruments either issued by an institution having capital, surplus and undivided profits over $100 million or insured by BIF or SAIF. Bank instruments may include Eurodollar Certificates of Deposit ("ECDs"), Yankee Certificates of Deposit ("Yankee CDs") and Eurodollar Time Deposits ("ETDs"). Due to the fact that institutions issuing such instruments are not necessarily subject to the same regulatory requirements that apply to domestic banks, such as the reserve requirements, loan limitations, examination, accounting, auditing, record keeping, and the public availability of information, these investments may present additional risks to investors.

ZERO COUPON CONVERTIBLE SECURITIES

Zero coupon convertible securities are debt securities which are issued at a discount to their face amount and do not entitle the holder to any periodic payments of interest prior to maturity. Rather, interest earned on zero coupon convertible securities accretes at a stated yield until the security reaches its face amount at maturity. Zero coupon convertible securities are convertible into a specific number of shares of the issuer's common stock. In addition, zero coupon convertible securities usually have put features that provide the holder with the opportunity to put the bonds back to the issuer at a stated price before maturity. Generally, the prices of zero coupon convertible securities may be more sensitive to market interest rate fluctuations than conventional convertible securities.

Federal income tax law requires the holder of a zero coupon convertible security to recognize income with respect to the security prior to the receipt of cash payments. To maintain its qualification as a regulated investment company and avoid liability of federal income taxes, the Fund will be required to distribute income accrued with respect to zero coupon convertible securities which it owns, and may have to sell portfolio securities (perhaps at disadvantageous times) in order to generate cash to satisfy these distribution requirements.

RESTRICTED AND ILLIQUID SECURITIES

The Fund intends to invest in restricted securities. Restricted securities are any securities in which the Fund may otherwise invest pursuant to its investment objective and policies, but which are subject to restriction on resale under federal securities law. However, the Fund will limit investments in illiquid securities, including certain restricted securities determined by the Directors to be illiquid, non-negotiable time deposits, unlisted options, and repurchase agreements providing for settlement in more than seven days after notice, to 15% of its net assets.

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

FOREIGN SECURITIES

The Fund reserves the right to invest up to 25% of its total assets in fixed income securities of foreign governmental units located within an individual foreign nation and to purchase or sell various currencies on either a spot or forward basis in connection with these investments.

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

INVESTING IN SECURITIES OF OTHER INVESTMENT COMPANIES

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

TEMPORARY INVESTMENTS

The Fund may also invest temporarily in cash and cash items during times of unusual market conditions for defensive purposes and to maintain liquidity.

REPURCHASE AGREEMENTS

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

WHEN-ISSUED OR DELAYED
DELIVERY TRANSACTIONS

The Fund may purchase securities on a when-issued or delayed delivery basis. These transactions are arrangements in which the Fund purchases securities with payment and delivery scheduled for a future time. The seller's failure to complete the transaction may cause the Fund to miss a price or yield considered to be advantageous. Settlement dates may be a month or more after entering into these transactions, and the market values of the securities purchased may vary from the purchase prices. Accordingly, the Fund may pay more/less than the market value of the securities on the settlement date.

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

LENDING OF PORTFOLIO SECURITIES

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

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

PUT AND CALL OPTIONS

The Fund may purchase put options on financial futures contracts and put options on portfolio securities. Financial futures may include index futures. These options will be used as a hedge to attempt to protect securities which the Fund holds against decreases in value. For the immediate future, the Fund will enter into futures contracts directly only when it desires to exercise a financial futures put option in its portfolio rather than either closing out the option or allowing it to expire. The Fund will only purchase puts on financial futures contracts which are traded on a nationally recognized exchange.

The Fund will generally purchase over-the-counter put options on portfolio securities in negotiated transactions with the writers of the options since options on the portfolio securities held by the Fund are typically not traded on an exchange. The Fund purchases options only from investment dealers and other financial associations (such as commercial banks or savings and loan institutions) deemed creditworthy by the Adviser.

In general, over-the-counter put options differ from exchange traded put options in the following respects. Over-the-counter put options are two party contracts with price and terms negotiated between buyer and seller, and such options are endorsed and/or guaranteed by third parties (such as a New York Stock Exchange member). Additionally, over-the-counter strike prices are adjusted to reflect dividend payments, initial strike prices are generally set at market, and option premiums (which are all time premiums) are amortized on a straight line basis over the life of the option. In contrast, exchange traded options are third-party contracts with standardized strike prices and expiration dates and are purchased from the Clearing Corporation. Strike prices are not adjusted for dividends, and options are marked to market, thereby obviating the need to amortize the time premium. Exchange traded options have a continuous liquid market while over-the-counter options do not.

The Fund may also write call options on all or any portion of its portfolio in an effort to generate income for the Fund. The Fund will write call options on securities either held in its portfolio or which it has the right to obtain without payment of further consideration or for which it has segregated cash in the amount of any additional consideration. The call options which the Fund writes and sells must be listed on a recognized options exchange. Although the Fund reserves the right to write covered call options on its entire portfolio, it will not write such options on more than 25% of its total assets unless a higher limit is authorized by its Directors.

The Fund may attempt to hedge the portfolio by entering into financial futures contracts and to write calls on financial futures contracts.

RISKS

When the Fund writes a call option, the Fund risks not participating in any rise in the value of the underlying security. In addition, when the Fund purchases puts on financial futures contracts to protect against declines in prices of portfolio securities, there is a risk that the prices of the securities subject to the futures contracts may not correlate perfectly with the prices of the securities in the Fund's portfolio. This may cause the futures contract and its corresponding put to react differently than the portfolio securities to market changes. In addition, the Adviser could be incorrect in its expectations about the direction or extent of market factors such as interest rate movements. In such an event, the Fund may lose the purchase price of the put option. Finally, it is not certain that a secondary market for options will exist at all times. Although the Adviser will consider liquidity before entering into option transactions, there is no assurance that a liquid secondary market on an exchange will exist for any particular option or at any particular time. The Fund's ability to establish and close out option positions depends on this secondary market.

DERIVATIVE CONTRACTS AND SECURITIES

The term "derivative" has traditionally been applied to certain contracts (including, futures, forward, option and swap contracts) that "derive" their value from changes in the value of an underlying security, currency, commodity or index. Certain types of securities that incorporate the performance characteristics of these contracts are also referred to as "derivatives." The term has also been applied to securities "derived" from the cash flows from underlying securities, mortgages or other obligations.

Derivative contracts and securities can be used to reduce or increase the volatility of an investment portfolio's total performance. While the response of certain derivative contracts and securities to market changes may differ from traditional investments, such as stock and bonds, derivatives do not necessarily present greater market risks than traditional investments. The Fund will only use derivative contracts for the purpose disclosed in the applicable prospectus sections above. To the extent that the Fund invests in securities that could be characterized as derivatives, such as asset-backed securities and mortgage-backed securities, including ARMs, CMOs, and REMICs, it will only do so in a manner consistent with its investment objectives, policies and limitations.

INVESTMENT LIMITATIONS

The Fund will not:

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

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

sell securities short except, under strict limitations, it may maintain open short positions so long as not more than 10% of the value of its net assets is held as collateral for those positions; nor

with respect to 75% of the value of its total assets, invest more than 5% in securities of any one issuer other than cash, cash items or securities issued or guaranteed by the government of the United States, its agencies, or instrumentalities and repurchase agreements collateralized by such securities.

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

The Fund will not:

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

NET ASSET VALUE

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

The net asset value of each class of Shares of the Fund 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; or (iii) the following holidays: New Year's Day, President's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

INVESTING IN THE FUND

This prospectus offers investors three classes of Shares that carry sales loads and charges in different forms and amounts and which bear different levels of expenses:

CLASS A SHARES

An investor who purchases Class A Shares pays a maximum sales load of 4.50% at the time of purchase. As a result, Class A Shares are not subject to any charges when they are redeemed (except for special programs offered under "Purchases with Proceeds From Redemptions of Unaffiliated Investment Companies"). Class A Shares are distributed pursuant to a Rule 12b-1 plan whereby the distributor is paid a fee of up to .25 of 1.00%. Certain purchases of Class A Shares qualify for reduced sales loads. See "Reducing the Sales Load--Class A Shares."

CLASS B SHARES

Class B Shares are sold without an initial sales load, but are subject to a contingent deferred sales charge of up to 5.50% if redeemed within six full years following purchase. Class B Shares also bear a higher 12b-1 fee than Class A Shares. Class B Shares will automatically convert into Class A Shares, based on relative net asset value, at the end of the month eight full years after the purchase date. Class B Shares provide an investor the benefit of putting all of the investor's dollars to work from the time the investment is made, but (until conversion) will have a higher expense ratio and pay lower dividends than Class A Shares due to Class B Shares' higher possible 12b-1 fee of up to .75 of 1%.

CLASS C SHARES

Class C Shares are sold without an initial sales load, but are subject to a 1% contingent deferred sales charge on assets redeemed within the first 12 months following purchase. Class C Shares provide an investor the benefit of putting all of the investor's dollars to work from the time the investment is made, but will have a higher expense ratio and pay lower dividends than Class A Shares due to Class C Shares' higher possible 12b-1 fee of up to .75 of 1%. Class C Shares have no conversion feature.

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HOW TO PURCHASE SHARES

Shares of the Fund are sold on days on which the New York Stock Exchange is open. Shares of the Fund may be purchased as described below, either through a financial institution (such as a bank or broker/dealer which has a sales agreement with the distributor) or by wire or by check directly to the Fund, with a minimum initial investment of $500 for Class A Shares and $1,500 for Shares of Classes B and C. Additional investments can be made for as little as $100. The minimum initial and subsequent investment for retirement plans is only $50. (Financial institutions may impose different minimum investment requirements on their customers.)

In connection with any sale, Federated Securities Corp. may from time to time offer certain items of nominal value to any shareholder or investor. The Fund reserves the right to reject any purchase request. An account must be established at a financial institution or by completing, signing, and returning the new account form available from the Fund before Shares can be purchased.

INVESTING IN CLASS A SHARES

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

AMOUNT OF TRANSACTION	SALES LOAD AS A PERCENTAGE OF PUBLIC OFFERING PRICE	SALES LOAD AS A PERCENTAGE OF NET AMOUNT INVESTED	DEALER CONCESSION AS A PERCENTAGE OF PUBLIC OFFERING PRICE
Less than $100,000	4.50%	4.71%	4.00%
$100,000 but less than $250,000	3.75%	3.90%	3.25%
$250,000 but less than $500,000	2.50%	2.56%	2.25%
$500,000 but less than $1 million	2.00%	2.04%	1.80%
$1,000,000 or greater	0.00%	0.00%	0.25%*

*See sub-section entitled "DEALER CONCESSION."

No sales load is imposed for Class A Shares purchased through bank trust departments, investment advisers registered under the Investment Advisers Act of 1940, as amended, retirement plans where the third party administrator has entered into certain arrangements with Federated Securities Corp. or its affiliates, to "wrap accounts" or similar programs for the benefit of clients of financial institutions under which clients pay fees to such financial institutions, or to shareholders designated as Liberty Life Members. However, investors who purchase Shares through a trust department, investment adviser, wrap account, or retirement plan may be charged an additional service fee by the institution.

No sales load is imposed on purchases made by retirement plans with over $1 million invested in funds available through the Federated LifeTrackTM Program.

DEALER CONCESSION

For sales of Class A Shares, a dealer will normally receive up to 90% of the applicable sales load. Any portion of the sales load which is not paid to a dealer will be retained by the distributor. However, the distributor, may offer to pay dealers up to 100% of the sales load retained by it. Such payments may take the form of cash or promotional incentives, such as reimbursement of certain expenses of qualified employees and their spouses to attend informational meetings about the Fund or other special events at recreational-type facilities, or items of material value. In some instances, these incentives will be made available only to dealers whose employees have sold or may sell a significant amount of Shares. On purchases of $1 million or more, the investor pays no sales load; however, the distributor will make twelve monthly payments to the dealer totaling 0.25% of the public offering price over the first year following the purchase. Such payments are based on the original purchase price of Shares outstanding at each month end.

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

REDUCING OR ELIMINATING THE SALES LOAD

The sales load can be reduced or eliminated on the purchase of Class A Shares through:

quantity discounts and accumulated purchases;

concurrent purchases;

signing a 13-month letter of intent;

using the reinvestment privilege; or

purchases with proceeds from redemptions of unaffiliated investment company shares.

QUANTITY DISCOUNTS AND ACCUMULATED PURCHASES

As shown in the table above, larger purchases reduce the sales load paid. The Fund will combine purchases of Class A Shares made on the same day by the investor, the investor's spouse, and the investor's children under age 21 when it calculates the sales load. In addition, the sales load, if applicable, is reduced for purchases made at one time by a trustee or fiduciary for a single trust estate or a single fiduciary account.

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

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

CONCURRENT PURCHASES

For purposes of qualifying for a sales load reduction, a shareholder has the privilege of combining concurrent purchases of two or more funds in the Liberty Family of Funds, the purchase price of which includes a sales load. For example, if a shareholder concurrently invested $30,000 in one of the other funds in the Liberty Family of Funds with a sales load, and $20,000 in this Fund, the sales load would be reduced.

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

LETTER OF INTENT

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

The Shares held in escrow in the shareholder's account will be released upon the fulfillment of

the letter of intent or the end of the 13-month period, whichever comes first. If the amount specified in the letter of intent is not purchased, an appropriate number of escrowed Shares may be redeemed in order to realize the difference in the sales load.

While this letter of intent will not obligate the shareholder to purchase Shares, each purchase during the period will be at the sales load applicable to the total amount intended to be purchased. At the time a letter of intent is established, current balances in accounts in any Class A Shares of any fund in the Liberty Family of Funds, excluding money market accounts, will be aggregated to provide a purchase credit towards fulfillment of the letter of intent. Prior trade prices will not be adjusted.

REINVESTMENT PRIVILEGE

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

PURCHASES WITH PROCEEDS FROM REDEMPTIONS OF UNAFFILIATED INVESTMENT COMPANIES

Investors may purchase Class A Shares at net asset value, without a sales load, with the proceeds from the redemption of shares of an unaffiliated investment company that were purchased or sold with a sales load or commission and were not distributed by Federated Securities Corp. The purchase must be made within 60 days of the redemption, and Federated Securities Corp. must be notified by the investor in writing, or by his financial institution, at the time the purchase is made. From time to time, the Fund may offer dealers a payment of .50 of 1% for Shares purchased under this program. If Shares are purchased in this manner, Fund purchases will be subject to a contingent deferred sales charge for one year from the date of purchase.

INVESTING IN CLASS B SHARES

Class B Shares are sold at their net asset value next determined after an order is received. While Class B Shares are sold without an initial sales load, under certain circumstances described under "Contingent Deferred Sales Charge--Class B Shares," a contingent deferred sales charge may be applied by the distributor at the time Class B Shares are redeemed.

CONVERSION OF CLASS B SHARES

Class B Shares will automatically convert into Class A Shares at the end of the month eight full years after the purchase date, except as noted below, and will no longer be subject to a distribution services fee (see "Distribution of Shares"). Such conversion will be on the basis of the relative net asset values per share, without the imposition of any sales load, fee or other charge. Class B Shares acquired by exchange from Class B Shares of another fund in the Liberty Family of Funds will convert into Class A Shares based on the time of the initial purchase. For purposes of conversion to Class A Shares, Shares purchased through the reinvestment of dividends and distributions paid on Class B Shares will be considered to be held in a separate sub-account. Each time any Class B Shares in the shareholder's account (other than those in the sub-account) convert to Class A Shares, an equal pro rata portion of the Class B Shares in the sub-account will also convert to Class A Shares. The conversion of Class B Shares to Class A Shares is subject to the continuing availability of a ruling from the Internal Revenue Service or an opinion of counsel that such conversions will not constitute taxable events for

federal tax purposes. There can be no assurance that such ruling or opinion will be available, and the conversion of Class B Shares to Class A Shares will not occur if such ruling or opinion is not available. In such event, Class B Shares would continue to be subject to higher expenses than Class A Shares for an indefinite period.

Orders for $250,000 or more of Class B Shares will automatically be invested in Class A Shares.

INVESTING IN CLASS C SHARES

Class C Shares are sold at net asset value next determined after an order is received. A contingent deferred sales charge of 1.00% will be charged on assets redeemed within the first full 12 months following purchase. For a complete description of this charge see "Contingent Deferred Sales Charge--Class C Shares."

PURCHASING SHARES THROUGH A FINANCIAL INSTITUTION

An investor may call his financial institution (such as a bank or an investment dealer) to place an order to purchase Shares. Orders placed through a financial institution are considered received when the Fund is notified of the purchase order or when payment is converted into federal funds. 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 may charge additional fees for their services.

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

PURCHASING SHARES BY WIRE

To purchase Shares directly from Federated Securities Corp. by Federal Reserve wire, call the Fund. All information needed will be taken over the telephone, and the order is considered received when the transfer agent's bank receives payment by wire.

PURCHASING SHARES BY CHECK

Once an account has been established, Shares may be purchased by sending a check made payable to the name of the Fund (designate class of Shares and account number) to: Federated Services Company, c/o State Street Bank and Trust Company, P.O. Box 8604, Boston, Massachusetts 02266-8604. Orders by mail are considered received when payment by check is converted into federal funds (normally the business day after the check is received).

SPECIAL PURCHASE FEATURES

SYSTEMATIC INVESTMENT PROGRAM

Once a Fund account has been opened, shareholders may add to their investment on a regular basis in a minimum amount of $100. Under this program, funds may be automatically withdrawn periodically from the shareholder's checking or savings account at an Automated Clearing House ("ACH") member and invested

in the Fund at the net asset value next determined after an order is received by the Fund, plus the sales load, if applicable. Shareholders should contact their financial institution or the Fund to participate in this program.

RETIREMENT PLANS

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

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EXCHANGE PRIVILEGE

CLASS A SHARES

Class A shareholders may exchange all or some of their Shares for Class A Shares of other funds in the Liberty Family of Funds at net asset value. Neither the Fund nor any of the funds in the Liberty Family of Funds imposes any additional fees on exchanges. Participants in a retirement plan under the Federated LifeTrackTM Program may exchange all or some of their Shares for Class A Shares of other funds offered under the plan at net asset value.

CLASS B SHARES

Class B shareholders may exchange all or some of their Shares for Class B Shares of other funds in the Liberty Family of Funds. (Not all funds in the Liberty Family of Funds currently offer Class B Shares. Contact your financial institution regarding the availability of other Class B Shares in the Liberty Family of Funds). Exchanges are made at net asset value without being assessed a contingent deferred sales charge on the exchanged Shares. To the extent that a shareholder exchanges Shares for Class B Shares in other funds in the Liberty Family of Funds, the time for which the exchanged-for Shares are to be held will be added to the time for which exchanged-from Shares were held for purposes of satisfying the applicable holding period.

CLASS C SHARES

Class C shareholders may exchange all or some of their Shares for Class C Shares in other funds in the Liberty Family of Funds at net asset value without a contingent deferred sales charge. (Not all funds in the Liberty Family of Funds currently offer Class C Shares. Contact your financial institution regarding the availability of other

Class C Shares in the Liberty Family of Funds.) Participants in a retirement plan under the Program may exchange some or all of their Shares for Class C Shares of other funds offered under their plan at net asset value without a contingent deferred sales charge. To the extent that a shareholder exchanges Shares for Class C Shares in other funds in the Liberty Family of Funds, the time for which the exchanged-for Shares are to be held will be added to the time for which exchanged-from Shares were held for purposes of satisfying the applicable holding period. For more information, see "Contingent Deferred Sales Charge."

REQUIREMENTS FOR EXCHANGE

Shareholders using this privilege must exchange Shares having a net asset value equal to the minimum investment requirements of the fund into which the exchange is being made. Before the exchange, the shareholder must receive a prospectus of the fund for which the exchange is being made.

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

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

TAX CONSEQUENCES

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

MAKING AN EXCHANGE

Instructions for exchanges for the Liberty Family of Funds may be given in writing or by telephone. Written instructions may require a signature guarantee. Shareholders of the Fund may have difficulty in making exchanges by telephone through brokers and other financial institutions during times of drastic economic or market changes. If a shareholder cannot contact his broker or financial institution by telephone, it is recommended that an exchange request be made in writing and sent by overnight mail to Federated Services Company, 500 Victory Road--Second Floor, Quincy, Massachusetts 02171.

Instructions for exchanges for retirement plans participating in the Federated LifeTrackTM Program should be given to the plan administrator.

TELEPHONE INSTRUCTIONS

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

Any Shares held in certificate form cannot be exchanged by telephone but must be forwarded to Federated Services Company, c/o State Street Bank and Trust Company, P.O. Box 8604, Boston, Massachusetts 02266-8604 and deposited to the shareholder's account before being exchanged. Telephone exchange instructions are recorded and will be binding upon the shareholder. Such instructions will be processed as of 4:00 p.m. (Eastern time) and must be received by the Fund before that time for Shares to be

exchanged the same day. Shareholders exchanging into a Fund will not receive any dividend that is payable to shareholders of record on that date. This privilege may be modified or terminated at any time.

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HOW TO REDEEM SHARES

Shares are redeemed at their net asset value, less any applicable contingent deferred sales charge, next determined after the Fund receives the redemption request. Redemptions will be made on days on which the Fund computes its net asset value. Redemption requests must be received in proper form and can be made as described below. Redemptions of Shares held through retirement plans participating in the Federated LifeTrack ProgramTM will be governed by the requirements of the respective plans.

REDEEMING SHARES THROUGH YOUR FINANCIAL INSTITUTION

Shares of the Fund may be redeemed by calling your financial institution to request the redemption. Shares will be redeemed at the net asset value, less any applicable contingent deferred sales charge next determined after the Fund receives the redemption request from the financial institution. Redemption requests through a registered broker/dealer must be received by the broker before 4:00 p.m. (Eastern time) and must be transmitted by the broker to the Fund before 5:00 p.m. (Eastern time) in order for Shares to be redeemed at that day's net asset value. Redemption requests through other financial institutions (such as banks) 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. Customary fees and commissions may be charged by the financial institution for this service.

REDEEMING SHARES BY TELEPHONE

Shares may be redeemed in any amount by calling the Fund provided the Fund has a properly completed authorization form. These forms can be obtained from Federated Securities Corp. Proceeds will be mailed in the form of a check, to the shareholder's address of record or by wire transfer to the shareholder's account at a domestic commercial bank that is a member of the Federal Reserve System. The minimum amount for a wire transfer is $1,000. Proceeds from redeemed Shares purchased by check or through ACH will not be wired until that method of payment has cleared.

Telephone instructions will 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 this occurs, "Redeeming Shares By Mail" should be considered. If at any time the Fund shall determine it necessary to terminate or modify the telephone redemption privilege, shareholders would be promptly notified.

REDEEMING SHARES BY MAIL

Shares may be redeemed in any amount by mailing a written request to: Federated Services Company, c/o State Street Bank and Trust Company, Fund Name, Fund Class, P.O. Box 8604, Boston, Massachusetts 02266-8604.

The written request should state: Fund Name and the Class designation; the account name as registered with the Fund; the account number; and the number of Shares to be redeemed or the dollar amount requested. All owners of the account must sign the request exactly as the Shares are registered. It is recommended that any share certificates be sent by registered or certified mail with the written request.

If you are requesting a redemption of any amount to be sent to an address other than that on record with the Fund, or a redemption payable to a third party, then all signatures appearing on the written request must be guaranteed by a bank which is a member of the Federal Deposit Insurance Corporation, a trust company, a member firm of a domestic stock exchange, or any other "eligible guarantor institution," as defined by the Securities and 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.

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

SPECIAL REDEMPTION FEATURES

SYSTEMATIC WITHDRAWAL PROGRAM

Shareholders who desire to receive payments of a predetermined amount not less than $100 may take advantage of the Systematic Withdrawal Program. Under this program, Shares are redeemed to provide for periodic withdrawal payments in an amount directed by the shareholder. Depending upon the amount of the withdrawal payments, the amount of dividends paid and capital gains distributions with respect to Shares, and the fluctuation of the net asset value of Shares redeemed under this program, redemptions may reduce, and eventually deplete, the shareholder's investment in the Fund. For this reason, payments under this program should not be considered as yield or

income on the shareholder's investment in the Fund. To be eligible to participate in this program, a shareholder must have an account value of at least $10,000. A shareholder may apply for participation in this program through his financial institution. Due to the fact that Class A Shares are sold with a sales load, it is not advisable for shareholders to continue to purchase Class A Shares while participating in this program. A contingent deferred sales charge may be imposed on Class B and C Shares.

CONTINGENT DEFERRED SALES CHARGE

Shareholders may be subject to a contingent deferred sales charge upon redemption of their Shares under the following circumstances:

CLASS A SHARES

Class A Shares purchased under a periodic special offering with the proceeds of a redemption of shares of an unaffiliated investment company purchased and redeemed with a sales load and not distributed by Federated Securities Corp. may be charged a contingent deferred sales charge of .50 of 1.00% for redemptions made within one full year of purchase. Any applicable contingent deferred sales charge will be imposed on the lesser of the net asset value of the redeemed Class A Shares at the time of purchase or the net asset value of the redeemed Class A Shares at the time of redemption.

CLASS B SHARES

Shareholders redeeming Class B Shares from their Fund accounts within six full years of the purchase date of those Shares will be charged a contingent deferred sales charge by the Fund's distributor. Any applicable contingent deferred sales charge will be imposed on the lesser of the net asset value of the redeemed Shares at the time of purchase or the net asset value of the redeemed Shares at the time of redemption in accordance with the following schedule:

YEAR OF REDEMPTION AFTER PURCHASE	CONTINGENT DEFERRED SALES CHARGE
First	5.50%
Second	4.75%
Third	4%
Fourth	3%
Fifth	2%
Sixth	1%
Seventh and thereafter	0%

CLASS C SHARES

Shareholders redeeming Class C Shares from their Fund accounts within one full year of the purchase date of those Shares will be charged a contingent deferred sales charge by the Fund's distributor of 1.00%. Any applicable contingent deferred sales charge will be imposed on the lesser of the net asset value of the redeemed Shares at the time of purchase or the net asset value of the redeemed Shares at the time of redemption. No contingent deferred sales charge will be charged for redemptions of Class C Shares from the Federated LifeTrackTM Program.

CLASS A SHARES, CLASS B SHARES,
AND CLASS C SHARES

The contingent deferred sales charge will be deducted from the redemption proceeds otherwise payable to the shareholder and will be retained by the distributor. The contingent deferred sales charge will not be imposed with respect to: (1) Shares acquired through the reinvestment of dividends or distributions of long-term capital gains; and (2) Shares held for more than six full years from the date of purchase with respect to Class B Shares and one full year from the date of purchase with respect to Class C Shares and applicable Class A Shares. Redemptions will be processed in a manner intended to maximize the amount of redemption which will not be subject to a contingent deferred sales charge. In computing the amount

of the applicable contingent deferred sales charge, redemptions are deemed to have occurred in the following order: (1) Shares acquired through the reinvestment of dividends and long-term capital gains; (2) Shares held for more than six full years from the date of purchase with respect to Class B Shares and one full year from the date of purchase with respect to Class C Shares and applicable Class A Shares; (3) Shares held for fewer than six years with respect to Class B Shares and one full year from the date of purchase with respect to Class C Shares and applicable Class A Shares on a first-in, first-out basis. A contingent deferred sales charge is not assessed in connection with an exchange of Fund Shares for Shares of other funds in the Liberty Family of Funds in the same class (see "Exchange Privilege"). Any contingent deferred sales charge imposed at the time the exchanged for Shares are redeemed is calculated as if the shareholder had held the Shares from the date on which he became a shareholder of the exchanged-from Shares. Moreover, the contingent deferred sales charge will be eliminated with respect to certain redemptions (see "Elimination of Contingent Deferred Sales Charge").

ELIMINATION OF CONTINGENT DEFERRED SALES CHARGE

A contingent deferred sales charge will not be charged in connection with exchanges of Shares for Class A Shares in other Liberty Family Funds or Federated LifeTrackTM Program funds or redemptions from the Federated LifeTrackTM Program.

The contingent deferred sales charge will be eliminated with respect to the following redemptions: (1) redemptions following the death or disability, as defined in Section 72(m)(7) of the Internal Revenue Code of 1986, of a shareholder; (2) redemptions representing minimum required distributions from an Individual Retirement Account or other retirement plan to a shareholder who has attained the age of 70-1/2; and (3) involuntary redemptions by the Fund of Shares in shareholder accounts that do not comply with the minimum balance requirements. No contingent deferred sales charge will be imposed on redemptions of Shares held by Directors, employees and sales representatives of the Fund, the distributor, or affiliates of the Fund or distributor; employees of any financial institution that sells Shares of the Fund pursuant to a sales agreement with the distributor; and spouses and children under the age of 21 of the aforementioned persons. Finally, no contingent deferred sales charge will be imposed on the redemption of Shares originally purchased through a bank trust department, an investment adviser registered under the Investment Advisers Act of 1940, as amended, or retirement plans where the third party administrator has entered into certain arrangements with Federated Securities Corp. or its affiliates, or any other financial institution, to the extent that no payments were advanced for purchases made through such entities. The Directors reserve the right to discontinue elimination of the contingent deferred sales charge. Shareholders will be notified of such elimination. Any Shares purchased prior to the termination of such waiver would have the contingent deferred sales charge eliminated as provided in the Fund's prospectus at the time of the purchase of the Shares. If a shareholder making a redemption qualifies for an elimination of the contingent deferred sales charge, the shareholder must notify Federated Securities Corp. or the transfer agent in writing that he is entitled to such elimination.

ACCOUNT AND SHARE INFORMATION

CERTIFICATES AND CONFIRMATIONS

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

Detailed confirmations of each purchase and redemption are sent to each shareholder. Monthly confirmations are sent to report dividends paid during that month.

DIVIDENDS

Dividends are declared and paid monthly to all shareholders invested in the Fund on the record date. Dividends and distributions are automatically reinvested in additional Shares of the Fund on payment dates at the ex-dividend date net asset value without a sales load, unless shareholders request cash payments on the new account form or by contacting the transfer agent. All shareholders on the record date are entitled to the dividend. If Shares are redeemed or exchanged prior to the record date or purchased after the record date, those Shares are not entitled to that month's dividend.

CAPITAL GAINS

Net long-term capital gains realized by the Fund, if any, will be distributed at least once every twelve months.

ACCOUNTS WITH LOW BALANCES

Due to the high cost of maintaining accounts with low balances, the Fund may redeem Shares in any account, except retirement plans, and pay the proceeds to the shareholder if the account balance falls below the Class A Share required minimum value of $500 or the required minimum value of $1,500 for Class B Shares and Class C Shares. This requirement does not apply, however, if the balance falls below the required minimum value because of changes in the net asset value of the respective Share Class. 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.

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INVESTMENT SERIES FUNDS, INC.
INFORMATION

MANAGEMENT OF THE CORPORATION

BOARD OF DIRECTORS

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

INVESTMENT ADVISER

Investment decisions for the Fund are made by Federated Advisers, the Fund's investment adviser, subject to direction by the Directors. The Adviser continually conducts investment research and supervision for the Fund and is responsible for the purchase or sale of portfolio instruments, for which it receives an annual fee from the Fund.

ADVISORY FEES

The Adviser receives an annual investment advisory fee equal to .75 of 1% of the Fund's average daily net assets. The fee paid by the Fund, while higher than the advisory fee paid by other mutual funds in general, is comparable to fees paid by other mutual funds with similar objectives and policies. The Adviser may voluntarily waive a portion of its fee or reimburse the Fund for certain operating expenses. The Adviser can terminate this voluntary waiver at any time at its sole discretion. The Adviser has also undertaken to reimburse the Fund for operating expenses in excess of limitations established by certain states.

ADVISER'S BACKGROUND

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

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

Joseph M. Balestrino has been the Fund's portfolio manager since June, 1992. Mr. Balestrino joined Federated Investors in 1986 and has been an Assistant Vice President of the Fund's investment adviser since 1991. Mr. Balestrino served as an Investment Analyst of the investment adviser from 1989 until 1991, and from 1986 until 1989 he acted as Project Manager in the Product Development Department. Mr. Balestrino is a Chartered Financial Analyst and received his M.U.R.P. in Urban and Regional Planning from the University of Pittsburgh.

Mark E. Durbiano has been the Fund's portfolio manager since June, 1992. Mr. Durbiano joined Federated Investors in 1982 and has been a Vice President of the Fund's investment adviser since 1988. Mr. Durbiano is a Chartered Financial Analyst and received his M.B.A. in Finance from the University of Pittsburgh.

DISTRIBUTION OF SHARES

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

The distributor will pay dealers an amount equal to 5.5% of the net asset value of Class B Shares purchased by their clients or customers. These payments will be made directly by the distributor from its assets, and will not be made from the assets of the Fund. Dealers may voluntarily waive receipt of all or any portion of these payments. The distributor may pay a portion of the distribution fee discussed below to financial institutions that waive all or any portion of the advance payments.

The distributor may offer to pay financial institutions an amount equal to 1% of the net asset value of Class C Shares purchased by their clients or customers at the time of purchase (except for participants in the Federated LifeTrackTM Program). These payments will be made directly by the distributor from its assets, and will not be made from assets of the Fund. Financial institutions may elect to waive the initial payment described above; such waiver will result in the waiver by the Fund of the otherwise applicable contingent deferred sales charge.

DISTRIBUTION PLAN AND SHAREHOLDER SERVICES

Under a distribution plan adopted in accordance with Investment Company Act Rule 12b-1 (the "Distribution Plan"), the distributor may be paid a fee in an amount computed at an annual rate of up to .25% for Class A Shares and up to .75% for Class B Shares and Class C Shares of the average daily net assets of each class of Shares to finance any activity which is principally intended to result in the sale of Shares subject to the Distribution Plan. The Fund does not currently make payments to the distributor or charge a fee under the Distribution Plan for Class A Shares, and shareholders of Class A Shares will be notified if the Fund intends to charge a fee under the Distribution Plan. For Class A Shares and Class C Shares, the distributor may select financial institutions such as banks, fiduciaries, custodians for public funds, investment advisers, and broker/dealers to provide sales services or distribution-related support services as agents for their clients or customers. With respect to Class B Shares, because distribution fees to be paid by the Fund to the distributor may not exceed an annual rate of .75% of each class of Shares' average daily net assets, it will take the distributor a number of years to recoup the expenses it has incurred for its sales services and distribution-related support services pursuant to the Plan.

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

In addition, the Fund has entered into a Shareholder Services Agreement with Federated Shareholder Services, a subsidiary of Federated Investors, under which the Fund may make payments up to .25 of 1% of the average daily net asset value of Class A Shares, Class B Shares, and Class C Shares to obtain certain personal services for shareholders and for the maintenance of shareholder accounts ("Shareholder Services"). Under the Shareholder Services Agreement, Federated Shareholder Services will either perform shareholder services directly or will select financial institutions to perform shareholder services. Financial institutions will receive fees based upon Shares owned by their clients or customers. The schedules of such fees and the basis upon which such fees will be paid will be determined from time to time by the Fund and Federated Shareholder Services.

In addition to payments made pursuant to the Distribution Plan and Shareholder Services Agreement, Federated Securities Corp. and Federated Shareholder Services, from their own assets, may pay financial institutions supplemental fees for the performance of sales services, distribution-related support services, or shareholder services.

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

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

OTHER PAYMENTS TO FINANCIAL INSTITUTIONS

Federated Securities Corp. will pay financial institutions, at the time of purchase of Class A Shares, an amount equal to .50 of 1% of the net asset value of Class A Shares purchased by their clients or customers under the Federated LifeTrackTM Program or by certain qualified plans as approved by Federated Securities Corp. (Such payments are subject to a reclaim from the financial institution should the assets leave the program within 12 months after purchase.)

Furthermore, with respect to Class A Shares, Class B Shares, and Class C Shares, the distributor may offer to pay a fee from its own assets to financial institutions as financial assistance for providing substantial marketing and sales support. The support may include sponsoring sales, educational and training seminars for their employees, providing sales literature, and engineering computer software programs that emphasize the attributes of the Fund. Such assistance will be predicated upon the amount of Shares the financial institution sells or may sell, and/or upon the type and nature of sales or marketing support furnished by the financial institution. Any payments made by the distributor may be reimbursed by the Adviser or its affiliates.

ADMINISTRATION OF THE FUND

ADMINISTRATIVE SERVICES

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

which relates to the average aggregate daily net assets of all Federated Funds as specified below:

MAXIMUM ADMINISTRATIVE FEE	AVERAGE AGGREGATE DAILY NET ASSETS OF THE FEDERATED FUNDS
0.15 of 1%	on the first $250 million
0.125 of 1%	on the next $250 million
0.10 of 1%	on the next $250 million
0.075 of 1%	on assets in excess of $750 million

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

CUSTODIAN

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

TRANSFER AGENT AND DIVIDEND DISBURSING AGENT

Federated Services Company, P.O. Box 8604, Boston, Massachusetts 02266-8604, is transfer agent for the Shares of the Fund, and dividend disbursing agent for the Fund.

INDEPENDENT AUDITORS

The independent auditors for the Fund are Ernst & Young LLP, One Oxford Centre, Pittsburgh, Pennsylvania 15219.

EXPENSES OF THE CORPORATION AND CLASS A, B, AND C SHARES

Holders of Class A, B and C Shares pay their allocable portion of Corporation and portfolio expenses.

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

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

At present, the only expenses which are allocated specifically to Class A, B and

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

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SHAREHOLDER INFORMATION

VOTING RIGHTS

Each share of the Fund gives the shareholder one vote in Director elections and other matters submitted to shareholders for vote. All Shares of each portfolio or class in the Fund have equal voting rights, except that in matters affecting only a particular portfolio or class, only Shares of that portfolio or class are entitled to vote. As of June 22, 1995, Merrill Lynch Pierce Fenner & Smith, acting in various capacities for numerous accounts, was the owner of record of approximately 4,625,053 shares (25.60%) of the Fund, and therefore, may, for certain purposes, be deemed to control the Fund and be able to affect the outcome of certain matters presented for a vote of shareholders.

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

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

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TAX INFORMATION

FEDERAL INCOME TAX

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

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

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

PENNSYLVANIA PERSONAL PROPERTY TAXES

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

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

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PERFORMANCE INFORMATION

From time to time, the Fund advertises its total return and yield for each class of Shares including Fortress Shares (described under "Other Classes of Shares").

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

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

Total return and yield will be calculated separately for Class A Shares, Class B Shares, Class C Shares and Fortress Shares.

From time to time, advertisements for the Class A Shares, Class B Shares, Class C Shares, and Fortress Shares of the Fund may refer to ratings, rankings, and other information in certain financial publications and/or compare the performance of Class A Shares, Class B Shares, Class C Shares and Fortress Shares to certain indices.

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OTHER CLASSES OF SHARES

The Fund also offers another class of shares called Fortress Shares. Fortress Shares are sold primarily to customers of financial institutions subject to a front-end sales load, a contingent deferred sales charge and a minimum initial investment of $1,500, unless the investment is in a retirement account in which the minimum investment is $50.

Shares and Fortress Shares are subject to certain of the same expenses. Expense differences, however, between Shares and Fortress Shares may affect the performance of each class.

To obtain more information and a prospectus for Fortress Shares, investors may call 1-800-235-4669.

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FINANCIAL HIGHLIGHTS
FEDERATED BOND FUND
(FORMERLY, FORTRESS BOND FUND)

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(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

Reference is made to the Report of Ernst & Young LLP, Independent Auditors' report on page 53.

Class A Shares, Class B Shares, and Class C Shares were not being offered as of June 23, 1995. Accordingly, there are no Financial Highlights for such shares. The Financial Highlights presented below are historical information for shares of Fortress Bond Fund, which were the predecessor to Fortress Shares.

<TABLE>
<CAPTION>

<S>	<C> YEAR ENDED OCTOBER 31,	<C>	<C>	<C> YEAR ENDED DECEMBER 31,	<C>	<C>
	1994	1993	1992**	1991	1990	1989
NET ASSET VALUE, BEGINNING OF PERIOD	$10.30	$ 9.23	$8.81	$6.89	$8.79	$9.86
INCOME FROM INVESTMENT OPERATIONS						
Net investment income	0.76	0.77	0.59	1.01	1.08	1.23
Net realized and unrealized gain (loss) on investments	(1.09)	1.07	0.43	1.92	(1.84)	(1.07)
Total from investment operations	(0.33)	1.84	1.02	2.93	(0.76)	0.16
LESS DISTRIBUTIONS						
Dividends to shareholders from net investment income	(0.75)	(0.77)	(0.60)	(1.01)	(1.14)	(1.23)
Distributions to shareholders from net realized gain on investment transactions	(0.14)	--	--	--	--	--
Total distributions	(0.89)	(0.77)	(0.60)	(1.01)	(1.14)	(1.23)
NET ASSET VALUE, END OF PERIOD	$9.08	$10.30	$9.23	$8.81	$6.89	$8.79

TOTAL RETURN***	(3.41%)	20.61%	11.79%	44.62%	(9.59%)	1.32%
RATIOS TO AVERAGE NET ASSETS						
Expenses	1.05%	1.04%	0.49%(a)	1.00%	1.01%	14%
Net investment income	7.92%	7.69%	8.05%(a)	12.17%	13.43%	12.81%
Expense waiver/reimbursement (b)	0.33%	0.61%	2.01%(a)	1.50%	1.49%	1.36%
SUPPLEMENTAL DATA						
Net assets, end of period (000 omitted)	$146,270	$125,762	$54,886	$6,068	$7,484	$4,734
Portfolio Turnover	74%	51%	49%	33%	28%	38%

</TABLE>

	1988*
NET ASSET VALUE, BEGINNING OF PERIOD	$ 10.06
INCOME FROM INVESTMENT OPERATIONS	
Net investment income	0.61
Net realized and unrealized gain (loss) on investments	(0.16)
Total from investment operations	0.45
LESS DISTRIBUTIONS	
Dividends to shareholders from net investment income	(0.65)
Distributions to shareholders from net realized gain on investment transactions	--
Total distributions	(0.65)
NET ASSET VALUE, END OF PERIOD	$ 9.86
TOTAL RETURN***	4.62%
RATIOS TO AVERAGE NET ASSETS	
Expenses	1.00%(a)
Net investment income	12.58%(a)
Expense waiver/reimbursement (b)	1.00%(a)
SUPPLEMENTAL DATA	
Net assets, end of period (000 omitted)	$4,968
Portfolio Turnover	31%

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

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

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

(a) Computed on an annualized basis.

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

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

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

Federated Bond Fund
(formerly, Fortress Bond Fund)

Portfolio of Investments

October 31, 1994

<TABLE>
<CAPTION>

PRINCIPAL AMOUNT		VALUE
CORPORATE BONDS--88.3%		
	AEROSPACE & DEFENSE--2.5%	
$ 3,450,000	Grumman Corp., Deb., 10.375%, 1/1/99	$ 3,586,827
	AIR TRANSPORTATION--3.5%	
2,000,000	AMR Corp., Deb., 10.00%, 2/1/2001	2,061,540
2,100,000	Southwest Airlines, Inc., Deb., 9.40%, 7/1/2001	2,213,169
1,000,000	US Air, Inc., Pass Thru Cert., Series 1993-A2, 9.625%, 9/1/2003	840,000
	Total	5,114,709
	AUTOMOTIVE--3.9%	
500,000	Aftermarket Technology Corp., Sr. Sub. Note, 12.00%, 8/1/2004	508,750
2,000,000	Arvin Industries, Inc., Note, 6.875%, 2/15/2001	1,809,780
2,200,000	Chrysler Corp., Deb., 12.375%, 5/1/2020	2,892,846
500,000	Motor Wheel Corp., Sr. Note, Series B, 11.50%, 3/1/2000	491,250
	Total	5,702,626
	BANKING--0.4%	
500,000	First Nationwide Holdings, Inc., Sr. Note, 12.25%, 5/15/2001	521,250
	BROADCAST RADIO & TV--1.7%	
500,000	Allbritton Communications Co., Sr. Sub. Note, 11.50%, 8/15/2004	510,000
500,000	Chancellor Broadcasting Co., Sr. Sub. Note, 12.50%, 10/1/2004	500,000
1,000,000	SCI Television, Inc., Sr. Secd. Note, 11.00%, 6/30/2005	1,015,000
500,000	Sinclair Broadcast Group Inc., Sr. Sub. Note, 10.00%, 12/15/2003	482,500
	Total	2,507,500
	BUSINESS EQUIPMENT & SERVICES--0.7%	
500,000	Anacomp, Inc., Sr. Sub. Note, 15.00%, 11/1/2000	552,500
500,000	Bell & Howell Co., Sr. Sub. Note, Series B, 10.75%, 10/1/2002	482,500
	Total	1,035,000
	CABLE TELEVISION--2.2%	
$ 500,000	Cablevision Systems Corp., Sr. Sub. Deb., 9.875%, 2/15/2013	$ 462,500

</TABLE>

Federated Bond Fund
(formerly, Fortress Bond Fund)

<TABLE>
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PRINCIPAL AMOUNT		VALUE
CORPORATE BONDS--CONTINUED		
	CABLE TELEVISION--CONTINUED	

1,000,000	Continental Cablevision Inc., Sr. Deb., 9.50%, 8/1/2013	905,000
1,500,000	International Cabletel, Inc., Sr. Dfd. Coupon Note, 0/10.875%, 10/15/2003	836,250
500,000	Marcus Cable Operating Co. L.P., Sr. Deb., 11.875%, 10/1/2005	466,250
1,000,000	Rogers Cablesystems Ltd., Sr. Secd. Note, 9.65%, 1/15/2014	620,659
	Total	3,290,659
	CHEMICALS & PLASTICS--4.2%	
1,500,000	Arcadian Partners L.P., Sr. Note, Series B, 10.75%, 5/1/2005	1,473,750
500,000	Foamex Capital Corp., Sr. Sub. Deb., 11.875%, 10/1/2004	502,500
2,500,000	G-I Holdings, Inc., Sr. Disc. Note, Series B, 11.375%, 10/1/98	1,525,000
875,000	Harris Chemical North America, Inc., Sr. Secd. Disc. Note, 0/10.25%, 7/15/2001	710,938
500,000	LaRoche Industries, Inc., Sr. Sub. Note, 13.00%, 8/15/2004	478,750
500,000	Polymer Group, Inc., Sr. Note, 12.25%, 7/15/2002	500,000
1,000,000	UCC Investors Holdings, Inc., Sr. Sub. Note, 11.00%, 5/1/2003	1,010,000
	Total	6,200,938
	CLOTHING & TEXTILES--1.9%	
1,800,000	Reebok International Ltd., Deb., 9.75%, 9/15/98	1,846,548
1,000,000	Westpoint Stevens, Inc., Sr. Sub. Deb., 9.375%, 12/15/2005	902,500
	Total	2,749,048
	CONGLOMERATES--4.5%	
2,500,000	Leucadia National Corp., Sr. Sub., 10.375%, 6/15/2002	2,637,500
2,000,000	Noranda, Inc., Deb., 8.125%, 6/15/2004	1,921,520
1,000,000	Noranda, Inc., Deb., 8.625%, 7/15/2002	1,001,100
1,000,000	Sherritt Gordon Ltd., Sr. Note, 9.75%, 4/1/2003	965,000
	Total	6,525,120

</TABLE>

Federated Bond Fund
(formerly, Fortress Bond Fund)

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

PRINCIPAL AMOUNT		VALUE
CORPORATE BONDS--CONTINUED		
	CONTAINER & GLASS PRODUCTS--1.9%	
$ 1,000,000	Owens-Corning Fiberglass Corp., Deb., 9.375%, 6/1/2012	$ 1,010,760
750,000	Silgan Holdings, Inc., Sr. Disc. Deb., 0/13.25%, 12/15/2002	605,625
1,000,000	U.S. Can Co., Sr. Sub. Note, 13.50%, 1/15/2002	1,115,000
	Total	2,731,385
	COSMETICS & TOILETRIES--0.8%	
2,000,000	Revlon World Wide Corp., Sr. Secd. Discount Note, Series B, 12.00% accrual, 3/15/98	1,110,000
	ECOLOGICAL SERVICES & EQUIPMENT--1.3%	
500,000	Allied Waste Industries, Inc., Sr. Sub. Note, 10.75%, 2/1/2004	465,000

1,000,000	ICF Kaiser International, Inc., Sr. Sub. Note, 12.00% 12/31/2003	880,000
500,000	Mid-American Waste Systems, Inc., Sr. Sub. Note, 12.25%, 2/15/2003	492,500
	Total	1,837,500
	FINANCE/AUTOMOTIVE--2.1%	
1,000,000	Ford Capital, Deb., 9.00%, 8/15/98	1,032,440
2,000,000	General Motors Acceptance Corp., Medium Term Note, 7.50%, 5/18/98	1,980,740
	Total	3,013,180
	FINANCIAL INTERMEDIARIES--1.7%	
500,000	Coldwell Banker Corp., Sr. Sub. Note, Series B, 10.25%, 6/30/2003	513,125
2,000,000	Merrill Lynch & Co., Inc., Medium Term Note, 7.25%, 6/14/2004	1,966,820
	Total	2,479,945
	FOOD & DRUG RETAILERS--4.0%	
1,000,000	Grand Union Co., Sr. Sub. Note, 12.25%, 7/15/2002	700,000
4,075,000	Hook-Superx, Inc., Sr. Note, 10.125%, 6/1/2002	4,217,625
1,000,000	Pathmark Stores, Inc., Sr. Sub. Note, 9.625%, 5/1/2003	888,750
	Total	5,806,375

</TABLE>

Federated Bond Fund
(formerly, Fortress Bond Fund)

<TABLE>
<CAPTION

PRINCIPAL AMOUNT		VALUE
CORPORATE BONDS--CONTINUED		
	FOOD PRODUCTS--3.5%	
$ 500,000	Curtice-Burns Foods, Inc., Sr. Sub. Note, 12.75%, 2/1/2005	$ 505,000
500,000	Doskocil Cos., Inc., Sr. Sub. Note, 9.75%, 7/15/2000	437,500
2,000,000	Grand Metropolitan Investment Corp., Company Guarantee, 7.00%, 6/15/99	1,930,540
1,000,000	PMI Acquisition Corp., Sr. Sub. Note, 10.25%, 9/1/2003	972,500
3,000,000	Specialty Foods Acquisition Corp., Sr. Secd. Disc. Deb., Series B, 0/13.00%, 8/15/2005	1,305,000
	Total	5,150,540
	FOOD SERVICES--1.6%	
1,000,000	Americold Corp., First Mortgage Bond, Series B, 11.50%, 3/1/2005	900,000
500,000	Flagstar Corp., Sr. Note, 10.75%, 9/15/2001	472,500
500,000	Flagstar Corp., Sr. Note, 10.875%, 12/1/2002	471,250
500,000	Flagstar Corp., Sr. Sub. Deb., 11.25%, 11/1/2004	427,500
	Total	2,271,250
	FOREST PRODUCTS--4.5%	
500,000	Domtar, Inc., Deb., 11.25%, 9/15/2017	508,750
500,000	Domtar, Inc., Note, 12.00%, 4/15/2001	537,500
1,000,000	Georgia-Pacific Corp., Deb., 10.125%, 5/15/2000	1,019,740

2,500,000	Georgia-Pacific Corp., Deb., 9.50%, 5/15/2022	2,516,125
500,000	Riverwood International Corp., Sr. Sub. Note, 11.25%, 6/15/2002	518,750
500,000	Stone Container Corp., Sr. Note, 11.50%, 10/1/2004	505,625
1,000,000	Stone Container Corp., Sr. Note, 9.875%, 2/1/2001	943,750
	Total	6,550,240
	GOVERNMENT AGENCY--1.2%	
2,000,000	Tennessee Valley Authority, Deb., 7.85%, 6/15/2044	1,769,420

</TABLE>

Federated Bond Fund
(formerly, Fortress Bond Fund)

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

PRINCIPAL AMOUNT		VALUE
CORPORATE BONDS--CONTINUED		
	HEALTH SERVICES--1.3%	
$ 2,000,000	Columbia HCA Healthcare Corp., Medium Term Note, 8.05%, 8/25/2006	$ 1,904,000
	HEALTHCARE--0.8%	
1,111,175	Amerisource Corp., Sr. PIK Deb., 11.25%, 7/15/2005	1,122,287
	HOME PRODUCTS & FURNISHINGS--0.8%	
1,750,000	American Standard, Inc., Sr. Sub. Disc. Deb., 0/10.50%, 6/1/2005	1,181,250
	HOTELS, MOTELS, INNS & CASINOS--0.4%	
500,000	Motels of America, Inc., Sr. Sub. Note, 12.00%, 4/15/2004	567,500
	INDUSTRIAL PRODUCTS & EQUIPMENT--3.6%	
500,000	Truck Components, Inc., Sr. Note, Series B, 12.25%, 6/30/2001	526,250
4,435,000	Varity Corp., Sr. Note, 11.375%, 11/15/98	4,734,362
	Total	5,260,612
	INSURANCE--3.0%	
2,000,000	Delphi Financial Group Inc., Note, 8.00%, 10/1/2003	1,684,000
3,000,000	Sunamerica, Inc., Deb., 8.125%, 4/28/2023	2,664,390
	Total	4,348,390
	LEISURE & ENTERTAINMENT--0.6%	
1,000,000	Paramount Communications, Inc., Sr. Deb., 8.25%, 8/1/2022	831,640
	OIL & GAS--9.9%	
2,710,000	Ashland Oil, Inc., Deb., 11.125%, 10/15/2017	3,057,720
1,000,000	Burlington Resources, Note, 7.15%, 5/1/99	973,200
1,000,000	Falcon Drilling Co., Inc., Sr. Note, Series B, 9.75%, 1/15/2001	972,500
1,000,000	Giant Industries, Sr. Sub. Note, 9.75%, 11/15/2003	930,000
1,000,000	H.S. Resources, Inc., Sr. Sub. Note, 9.875%, 12/1/2003	942,500
1,000,000	Occidental Petroleum Corp., Sr. Deb., 11.125%, 6/1/2019	1,130,940
1,000,000	Triton Energy Corp., Sr. Sub. Disc. Note, 0/9.75%, 12/15/2000	755,000

$ 2,000,000	USX Corp., Deb., 9.125%, 1/15/2013	$ 1,919,120

</TABLE>

Federated Bond Fund
(formerly, Fortress Bond Fund)

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

PRINCIPAL AMOUNT		VALUE
CORPORATE BONDS--CONTINUED		
	OIL & GAS--CONTINUED	
1,000,000	USX Corp., Note, 6.375%, 7/15/98	940,520
3,000,000	Western Atlas, Inc., Deb., 8.55%, 6/15/2024	2,827,440
	Total	14,448,940
	PRINTING & PUBLISHING--3.1%	
500,000	Affiliated Newspaper, Sr. Disc. Note, Class B, 0/13.25%, 7/1/2006	260,000
250,000	Garden State Newspapers, Inc., Sr. Sub. Note, 12.00%, 7/1/2004	248,750
1,000,000	News America Holdings, Inc., Sr. Note, 12.00%, 12/15/2001	1,132,220
3,000,000	News America Holdings, Inc., Sr. Note, 8.50%, 2/15/2005	2,881,590
	Total	4,522,560
	RETAILERS--1.4%	
1,000,000	Brylane Capital Corp., Sr. Sub. Note, Series B, 10.00%, 9/1/2003	947,500
1,000,000	J.C. Penney Co., S.F. Deb., 9.75%, 6/15/2021	1,058,850
	Total	2,006,350
	SOVEREIGN GOVERNMENT--8.8%	
2,500,000	Freeport Terminal (Malta) Ltd., Gtd. Global Note, 7.50%, 3/29/2009	2,281,475
1,400,000	New Zealand Government, Deb., 10.50%, 7/16/2000	1,498,000
1,000,000	Province of New Brunswick, Local Government Guarantee, 9.75%, 5/15/2020	1,091,100
1,500,000	Province of Quebec, Deb., 13.25%, 9/15/2014	1,854,525
2,000,000	Province of Quebec, Deb., 7.50%, 7/15/2023	1,687,020
2,000,000	Republic of Columbia, Note, 8.75%, 10/6/99	1,977,420
2,500,000	Victoria Public Authority, Local Government Guarantee, 8.25%, 1/15/2002	2,484,375
	Total	12,873,915

</TABLE>

Federated Bond Fund
(formerly, Fortress Bond Fund)

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<S> <C> <C> <C>
PRINCIPAL

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

</TABLE>

Federated Bond Fund
(formerly, Fortress Bond Fund)

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

SHARES OR PRINCIPAL AMOUNT		VALUE
CONVERTIBLE PREFERRED STOCKS--2.0%		
	BANKING--2.0%	
150,000	Citicorp., PERCS, Series 15, 8.25%	$ 2,943,750
	TOTAL CONVERTIBLE PREFERRED STOCKS (IDENTIFIED COST $2,975,000)	2,943,750
COMMON STOCKS--0.0%		
	ECOLOGICAL SERVICES & EQUIPMENT--0.0%	
4,800	(a)ICF Kaiser International, Inc., Warrants	2,400
	PRINTING & PUBLISHING--0.0%	
500	(a)Affiliated Newspaper	12,562
	TOTAL COMMON STOCKS (IDENTIFIED COST $16,831)	14,962
ASSET-BACKED SECURITIES--4.7%		
	STRUCTURED PRODUCTS--4.7%	

$ 1,000,000	Discover Card Trust 1991-B, Class B, 8.85%, 7/15/98	1,023,810
1,000,000	GE Capital Home Equity Loan 1991-1, Class B, 8.70%, 8/30/2011	988,330
1,000,000	Greentree Financial Corp., 1992-2, Class B, 9.15%, 1/15/2018	1,003,750
2,000,000	MBNA Master Credit Card Trust, 1992-2, Class A, 6.20%, 8/15/99	1,928,720
1,000,000	Merrill Lynch Mortgage Investment, Inc., 1988-H, Class B, 9.70%, 6/15/2008	1,021,880
1,000,000	Residential Funding Corp., 1993-S26, Class A10, 7.50%, 7/25/2023	843,120
	TOTAL ASSET-BACKED SECURITIES (IDENTIFIED COST $7,290,312)	6,809,610
MORTGAGE-BACKED SECURITIES--1.5%		
	GOVERNMENT AGENCY--1.5%	
2,420,238	Government National Mortgage Association, Pool 379983, 7.50%, 2/15/2024	2,246,998
	TOTAL MORTGAGE-BACKED SECURITIES (IDENTIFIED COST $2,443,684)	2,246,998

</TABLE>

Federated Bond Fund
(formerly, Fortress Bond Fund)

<TABLE>
<CAPTION>

<S> <C> PRINCIPAL AMOUNT	<C>	<C> VALUE
*REPURCHASE AGREEMENT--1.1%		
$ 1,605,000	J.P. Morgan Securities, Inc., 4.82%, dated 10/31/94, due 11/1/94 (at amortized cost)	$ 1,605,000
	TOTAL INVESTMENTS (IDENTIFIED COST $150,688,962)	$ 142,830,111+

</TABLE>

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

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

(a) Non-income producing.

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

The following abbreviations are used in this portfolio:

PERCS--Preferred Equity Redeemable Preferred Stock
PIK --Payment in Kind
SF --Sinking Fund

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

Federated Bond Fund
(formerly, Fortress Bond Fund)
Statement of Assets and Liabilities

October 31, 1994

<TABLE>

<CAPTION>

<S> <C>

ASSETS:		
Investments in securities, at value (identified and tax cost: $150,688,962)		$ 142,830,111
Cash		19,855
Receivable for investments sold		3,706,172
Interest receivable		3,546,494
Receivable for capital stock sold		699,579
Total assets		150,802,211
LIABILITIES:		
Payable for investments purchased	$ 2,487,041	
Payable for capital stock redeemed	1,299,169	
Dividends payable	623,242	
Accrued expenses and other liabilities	122,704	
Total liabilities		4,532,156
NET ASSETS for 16,110,377 shares of capital stock outstanding		$ 146,270,055
NET ASSETS CONSIST OF:		
Paid-in capital		$ 157,260,387
Net unrealized appreciation (depreciation) of investments		(7,858,851)
Accumulated net realized gain (loss) on investments		(3,335,869)
Undistributed net investment income		204,388
Total Net Assets		$ 146,270,055
NET ASSET VALUE, and Redemption Proceeds Per Share: (net assets of $146,270,055 / 16,110,377 shares of capital stock outstanding)		$9.08
COMPUTATION OF OFFERING PRICE:		
Offering Price Per Share (100/99 of $9.08)*		$9.17

</TABLE>

*See "How to Purchase Shares" in the prospectus.

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

Federated Bond Fund
(formerly, Fortress Bond Fund)
Statement of Operations

Year Ended October 31, 1994

<TABLE>
<CAPTION>

<S> <C>

INVESTMENT INCOME:		
Interest		$ 12,799,966
Dividends		118,106
Total investment income		12,918,072
EXPENSES:		
Investment advisory fee	$ 1,081,066	
Directors' fees	5,008	
Administrative personnel and services	192,379	

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

</TABLE>

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

Federated Bond Fund
(formerly, Fortress Bond Fund)
Statement of Changes in Net Assets

<TABLE>
<CAPTION>

<S>	<C> YEAR ENDED OCTOBER 31, 1994	<C> 1993
INCREASE (DECREASE) IN NET ASSETS:		
OPERATIONS--		
Net investment income	$ 11,411,758	$ 6,888,178
Net realized gain (loss) on investment transactions ($3,359,826 net loss and $2,084,112 net gain, respectively, as computed for federal tax purposes)	(3,358,420)	2,082,462
Change in unrealized appreciation (depreciation) of investments	(13,277,162)	6,719,114
Change in net assets resulting from operations	(5,223,824)	15,689,754
NET EQUALIZATION CREDITS	81,055	116,945
DISTRIBUTIONS TO SHAREHOLDERS--		
Dividends to shareholders from net investment income	(11,262,574)	(7,005,123)
Distributions to shareholders from net realized gain on investment transactions	(1,863,673)	--
Distributions in excess of net investment income	--	(20,955)
Change in net assets from distributions to shareholders	(13,126,247)	(7,026,078)
CAPITAL STOCK TRANSACTIONS--(EXCLUSIVE OF AMOUNTS ALLOCATED TO NET INVESTMENT INCOME)		
Proceeds from sale of shares	84,985,424	84,195,992

Net asset value of shares issued to shareholders in payment of dividends declared	4,135,607	2,669,825
Cost of shares redeemed	(50,343,919)	(24,770,792)
Change in net assets from capital stock transactions	38,777,112	62,095,025
Change in net assets	20,508,096	70,875,646
NET ASSETS:		
Beginning of period	125,761,959	54,886,313
End of period (including undistributed net investment income of $204,388 and $0, respectively)	$ 146,270,055	$ 125,761,959

</TABLE>

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

Federated Bond Fund
(formerly, Fortress Bond Fund)
Notes to Financial Statements

October 31, 1994

(1) ORGANIZATION

Investment Series Funds, Inc. (the "Corporation") is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end, management investment company. The Corporation consists of two diversified portfolios. The financial statements included herein present only those of Federated Bond Fund (the "Fund"). The financial statements of the other portfolio are presented separately. The assets of each portfolio are segregated and a shareholder's interest is limited to the portfolio in which shares are held. Effective February 3, 1993, the Fund was registered into a portfolio of Investment Series Funds, Inc. Prior to that date, the Fund was operated as a portfolio of Investment Series Trust.

Effective June 30, 1995 the Board of Directors of the Corporation (the "Directors") changed the name of the Fund from Fortress Bond Fund to Federated Bond Fund.

(2) SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

D. FEDERAL TAXES--It is the Fund's policy to comply with the provisions of the Code applicable to regulated investment companies and to distribute to shareholders each year substantially all of its taxable income. Accordingly, no provisions for federal tax are necessary. At October 31, 1994, the Fund, for federal tax purposes, had a capital loss carryforward of $3,359,826, which will reduce the Fund's taxable income arising from future net realized gain on investments, if any, to the extent permitted by the Code, and thus will reduce the amount of the distributions to shareholders which would otherwise be necessary to relieve the Fund of any liability for federal tax. Pursuant to the Code, such capital loss carryforward will expire in 2002 ($3,359,826).

E. EQUALIZATION--The Fund follows the accounting practice known as equalization by which a portion of the proceeds from sales and costs of redemptions of capital stock equivalent, on a per share basis, to the amount of undistributed net investment income on the date of the transaction is credited or charged to undistributed net investment income. As a result, undistributed net investment income per share is unaffected by sales or redemptions of capital stock.

F. WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS--The Fund may engage in when-issued or delayed delivery transactions. The Fund records when-issued securities on the trade date and maintains security positions such that sufficient liquid assets will be available to make

payment for the securities purchased. Securities purchased on a when-issued or delayed delivery basis are marked to market daily and begin earning interest on the settlement date.

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

(3) CAPITAL STOCK

At October 31, 1994, there were 1,000,000,000,000 shares ($0.0001 par value per share) of capital stock of the Fund authorized. Transactions in capital stock were as follows:

<TABLE>
<CAPTION>

<S>	<C> YEAR ENDED OCTOBER 31, 1994	<C> 1993
Shares sold	8,746,756	8,508,866
Shares issued to shareholders in payment of dividends declared	436,461	269,258

Shares redeemed	(5,284,540)	(2,510,109)
Net change resulting from Fund share transactions	3,898,677	6,268,015

</TABLE>

(4) INVESTMENT ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

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

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

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

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

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

(5) INVESTMENT TRANSACTIONS

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

PURCHASES	$ 140,759,517
SALES	$ 103,126,151

Report of Ernst & Young LLP,
Independent Auditors

To the Directors and Shareholders of
INVESTMENT SERIES FUNDS, INC.:

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of Federated Bond Fund (formerly, Fortress Bond Fund), (one of the portfolios comprising Investment Series Funds, Inc.) as of October 31, 1994, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended and the financial highlights (see page 36 of this prospectus) for each of the periods presented. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 1994, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Federated Bond Fund (formerly, Fortress Bond Fund) at October 31, 1994, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Pittsburgh, Pennsylvania
December 9, 1994

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APPENDIX
(UNAUDITED)

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

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

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

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

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

BB--Debt rated BB has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. The BB rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BBB-rating.

B--Debt rated B has a greater vulnerability to default but currently has the capacity to meet interest payments and principal payments. Adverse business, financial, or economic conditions will likely impair capacity or willingness to pay interest and repay principal. The B rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BB or BB rating.

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

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

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

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

BA--Bonds which are Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B--Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

FITCH INVESTORS SERVICE, INC.,
LONG-TERM DEBT RATINGS

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

AA--Bonds considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated AAA. Because bonds rated in the AAA and AA categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally rated F-1+.

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

BBB--Bonds considered to be investment grade and of satisfactory credit quality. The obligator'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. The likelihood that the ratings of these bonds will fall below investment grade is higher than for bonds with higher ratings.

BB--Bonds are considered speculative. The obligor's ability to pay interest and repay principal may be affected over time by adverse economic changes. However, business and financial alternatives can be identified which could assist the obligor in satisfying its debt service requirements.

B--Bonds are considered highly speculative. While bonds in this class are currently meeting debt service requirements, the probability of continued timely payment of principal and interest reflects the limited margin of safety and the need for reasonable business and economic activity throughout the life of the issue.

<TABLE>
<CAPTION>

<S>	<C>	<C>
ADDRESSES		
Investment Series Funds, Inc.		
	Federated Bond Fund	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Distributor		
	Federated Securities Corp.	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Investment Adviser		
	Federated Advisers	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Custodian		
	State Street Bank and Trust Company	P.O. Box 8602 Boston, Massachusetts 02266-8602

Transfer Agent and Dividend Disbursing Agent		
	Federated Services Company	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Independent Auditors		
	Ernst & Young LLP	One Oxford Centre Pittsburgh, Pennsylvania 15219

</TABLE>

FEDERATED BOND FUND
(FORMERLY, FORTRESS BOND FUND)
(A PORTFOLIO OF INVESTMENT
SERIES FUNDS, INC.)
CLASS A SHARES
CLASS B SHARES
CLASS C SHARES
COMBINED PROSPECTUS
An Open-End, Diversified
Management Investment Company
June 27, 1995

[LOGO] FEDERATED SECURITIES CORP.

Distributor
A subsidiary of FEDERATED INVESTORS

FEDERATED INVESTORS TOWER
PITTSBURGH, PENNSYLVANIA 15222-3779
Cusip 461444507
Cusip 461444606
Cusip 461444705
G01271-01 (6/95)

FEDERATED BOND FUND

(FORMERLY, FORTRESS BOND FUND)
(A PORTFOLIO OF INVESTMENT SERIES FUNDS, INC.)

FORTRESS SHARES

PROSPECTUS

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

The investment objective of the Fund is to provide as high a level of current income as is consistent with the preservation of capital by investing primarily in a portfolio of investment grade bonds.

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

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

The Fund has also filed with the Securities and Exchange Commission a Combined Statement of Additional Information dated June 27, 1995 for Class A Shares, Class B Shares, Class C Shares, and Fortress Shares. The information contained in the Combined Statement of Additional Information is incorporated by reference into this prospectus. You may request a copy of the Combined Statement of Additional Information free of charge by calling 1-800-235-4669. To obtain other information, or make inquiries about the Fund, contact your financial institution.

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

Prospectus dated June 27, 1995

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SUMMARY OF FUND EXPENSES
FEDERATED BOND FUND
(FORMERLY, FORTRESS BOND FUND)

<TABLE>

<S>	<C>	<C>
FORTRESS SHARES SHAREHOLDER TRANSACTION EXPENSES		
Maximum Sales Load Imposed on Purchases (as a percentage of offering price).....................................		1.00%
Maximum Sales Load Imposed on Reinvested Dividends (as a percentage of offering price)..		None
Contingent Deferred Sales Charge (as a percentage of original purchase price or redemption proceeds, as applicable) (1)..		1.00%
Redemption Fee (as a percentage of amount redeemed, if applicable)..		None
Exchange Fee...		None

ANNUAL FORTRESS SHARES OPERATING EXPENSES
(As a percentage of average net assets)

Management Fee (after waiver) (2)		0.48%
12b-1 Fee		None
Total Other Expenses		0.56%
Shareholder Services Fee (after waiver) (3)	0.24%	
Total Fortress Shares Operating Expenses (4)		1.04%

</TABLE>

(1) The contingent deferred sales charge assessed is 1.00% of the lesser of the original purchase price or the net asset value of shares redeemed within four years of their purchase date. For a more complete description see "Contingent Deferred Sales Charge."

(2) The management fee has been reduced to reflect the voluntary waiver of a portion of the management fee. The adviser can terminate this voluntary waiver at any time at its sole discretion. The maximum management fee is 0.75%.

(3) The maximum Shareholder Services Fee is 0.25%.

(4) The Total Fortress Shares Operating Expenses in the table above are based on expenses expected during the fiscal year ending October 31, 1995. The Total Fortress Shares Operating Expenses were 1.05% for the fiscal year ended October 31, 1994, and were 1.38% absent the voluntary waiver of a portion of the management fee.

The purpose of this table is to assist an investor in understanding the various costs and expenses that a shareholder of Fortress Shares will bear, either directly or indirectly. For more complete descriptions of the various costs and expenses, see "Investing in Fortress Shares" and "Investment Series Funds, Inc. Information." Wire-transferred redemptions of less than $5,000 may be subject to additional fees.

<TABLE>
<CAPTION>

EXAMPLE	1 year	3 years	5 years	10 years
<S>	<C>	<C>	<C>	<C>
You would pay the following expenses on a $1,000 investment, assuming (1) 5% annual return and (2) redemption at the end of each time period	$31	$54	$67	$136
You would pay the following expenses on the same investment, assuming no redemption	$21	$43	$67	$136

</TABLE>

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

FINANCIAL HIGHLIGHTS
FEDERATED BOND FUND
(FORMERLY, FORTRESS BOND FUND)

(FOR A SHARE OUTSTANDING THROUGHOUT EACH PERIOD)

Reference is made to the Report of Ernst & Young LLP, Independent Auditors' report on page 44.

<TABLE>
<CAPTION>

	YEAR ENDED OCTOBER 31,			YEAR ENDED DECEMBER 31,		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
	1994	1993	1992**	1991	1990	1989
NET ASSET VALUE, BEGINNING OF PERIOD	$10.30	$ 9.23	$ 8.81	$ 6.89	$ 8.79	$ 9.86
INCOME FROM INVESTMENT OPERATIONS						
Net investment income	0.76	0.77	0.59	1.01	1.08	1.23
Net realized and unrealized gain (loss) on investments	(1.09)	1.07	0.43	1.92	(1.84)	(1.07)
Total from investment operations	(0.33)	1.84	1.02	2.93	(0.76)	0.16
LESS DISTRIBUTIONS						
Dividends to shareholders from net investment income	(0.75)	(0.77)	(0.60)	(1.01)	(1.14)	(1.23)
Distributions to shareholders from net realized gain on investment transactions	(0.14)	--	--	--	--	--
Total distributions	(0.89)	(0.77)	(0.60)	(1.01)	(1.14)	(1.23)

NET ASSET VALUE, END OF PERIOD	$ 9.08	$10.30	$ 9.23	$ 8.81	$ 6.89	$ 8.79
TOTAL RETURN***	(3.41%)	20.61%	11.79%	44.62%	(9.59%)	1.32%
RATIOS TO AVERAGE NET ASSETS						
Expenses	1.05%	1.04%	0.49%(a)	1.00%	1.01%	1.14%
Net investment income	7.92%	7.69%	8.05%(a)	12.17%	13.43%	12.81%
Expense waiver/reimbursement (b)	0.33%	0.61%	2.01%(a)	1.50%	1.49%	1.36%
SUPPLEMENTAL DATA						
Net assets, end of period (000 omitted)	$146,270	$125,762	$54,886	$6,068	$7,484	$4,734
Portfolio Turnover	74%	51%	49%	33%	28%	38%

</TABLE>

<TABLE>
<CAPTION>

<S>	Year Ended December 31, 1988* <C>
NET ASSET VALUE, BEGINNING OF PERIOD	$ 10.06
INCOME FROM INVESTMENT OPERATIONS	
Net investment income	0.61
Net realized and unrealized gain (loss) on investments	(0.16)
Total from investment operations	0.45
LESS DISTRIBUTIONS	
Dividends to shareholders from net investment income	(0.65)
Distributions to shareholders from net realized gain on investment transactions	--
Total distributions	(0.65)
NET ASSET VALUE, END OF PERIOD	$ 9.86
TOTAL RETURN***	4.62%
RATIOS TO AVERAGE NET ASSETS	
Expenses	1.00%(a)
Net investment income	12.58%(a)
Expense waiver/reimbursement (b)	1.00%(a)
SUPPLEMENTAL DATA	
Net assets, end of period (000 omitted)	$4,968
Portfolio Turnover	31%

</TABLE>

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

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

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

(a) Computed on an annualized basis.

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

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

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

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GENERAL INFORMATION

The Corporation was organized under the laws of the State of Maryland on May 20, 1992. Prior to February 5, 1993, the Fund was operated as a portfolio of Investment Series Trust, a Massachusetts business trust established pursuant to a Declaration of Trust dated March 17, 1987. On February 3, 1993, the shareholders of the Fund voted to reorganize the Fund as a portfolio of the Corporation. On June 15, 1992, the shareholders of High Income Securities Fund approved a change to the investment objective of the Fund, as well as the name change of the Fund to Fortress Bond Fund. On June 27, 1995, the name of the Fund was changed to Federated Bond Fund. The Fund's address is Liberty Center, Federated Investors Tower, Pittsburgh, Pennsylvania 15222-3779. The Articles of Incorporation permit the Fund 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 Board of Directors (the "Directors") has established four classes of shares, known as Class A Shares, Class B Shares, Class C Shares, and Fortress Shares. This prospectus relates only to Fortress Shares ("Shares," or "Fortress Shares," as the context requires) of the Fund.

Shares of the Fund are designed primarily for individuals and institutions seeking as high a level of current income as is consistent with the preservation of capital by investing in a portfolio of investment grade bonds. A minimum initial investment of $1,500 is required, unless the investment is in a retirement account, in which case the minimum initial investment is $50.

Shares are sold at net asset value plus an applicable sales load and are redeemed at net asset value. However, a contingent deferred sales charge is imposed on Shares, other than shares purchased through reinvestment of dividends, which are redeemed within one to four years of their purchase date.

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FORTRESS INVESTMENT PROGRAM

The Fortress Shares class is a member of a family of funds ("Fortress Funds"), collectively known as the Fortress Investment Program. The other funds in the Program are:

American Leaders Fund, Inc. (Fortress Shares only), providing growth of capital and income through high-quality stocks;

California Municipal Income Fund (Fortress Shares only), providing current income exempt from federal regular income tax and California personal income taxes;

Fortress Adjustable Rate U.S. Government Fund, Inc., providing current income consistent with lower volatility of principal through a diversified portfolio of adjustable and floating rate mortgage securities which are issued or guaranteed by the U.S. government, its agencies or instrumentalities;

Fortress Municipal Income Fund, Inc., providing a high level of current income generally exempt from the federal regular income tax by investing primarily in a diversified portfolio of municipal bonds;

Fortress Utility Fund, Inc., providing high current income and moderate capital appreciation primarily through equity and debt securities of utility companies;

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

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

Limited Term Fund (Fortress Shares only), providing a high level of current income consistent with minimum fluctuation in principal value;

Limited Term Municipal Fund (Fortress Shares only), providing a high level of current income which is exempt from federal regular income tax consistent with the preservation of capital;

Money Market Management, Inc., providing current income consistent with stability of principal through high-quality money market instruments;

New York Municipal Income Fund (Fortress Shares only), providing current income exempt from federal regular income tax, New York personal income taxes, and New York City income taxes;

Ohio Municipal Income Fund (Fortress Shares only), providing current income exempt from federal regular income tax and Ohio personal income taxes;

Strategic Income Fund (Fortress Shares only), providing high current income through investing in domestic corporate debt obligations, U.S. government securities, and foreign government and corporate debt obligations; and

World Utility Fund (Fortress Shares only), providing total return by investing primarily in securities issued by domestic and foreign companies in the utilities industry.

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

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

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

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INVESTMENT INFORMATION

INVESTMENT OBJECTIVE

The investment objective of the Fund is to provide as high a level of current income as is consistent with the preservation of capital. While there is no assurance that the Fund will achieve its investment objective, it endeavors to do so by following the investment policies described in this prospectus. The investment objective stated above cannot be changed without the approval of shareholders. Unless stated otherwise, the investment policies of the Fund described below may be changed without shareholder approval. As a matter of investment policy, the Fund will invest, under normal circumstances, at least 65% of the value of its total net assets in investment grade bonds. Investment grade bonds are generally described as bonds that are rated in one of the top four rating categories by a nationally recognized statistical rating organization ("NRSRO") such as Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Group ("S&P"), or Fitch Investors Service, Inc. ("Fitch"). A description of the ratings categories is contained in the Appendix to the Prospectus.

INVESTMENT POLICIES

ACCEPTABLE INVESTMENTS

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

corporate debt obligations (as a matter of operating policy, the lowest rated corporate debt obligations, including zero coupon convertible securities, in which the Fund will invest will be rated B or better by an NRSRO, or which are of comparable quality in the judgment of the Fund's investment adviser);

obligations of the United States;

notes, bonds, and discount notes of the following U.S. government agencies or instrumentalities, such as Federal Home Loan Banks, Federal National Mortgage Association, Government National Mortgage Association, Farm Credit System (including the National Bank for Cooperatives and Banks for Cooperatives), Tennessee Valley Authority, Export-Import Bank of the United States, Commodity Credit Corporation, Federal Financing Bank, Student Loan Marketing Association, Federal Home Loan Mortgage Corporation, or National Credit Union Administration;

taxable municipal debt obligations (as a matter of operating policy, the lowest rated municipal debt obligations in which the Fund will invest will be rated BBB or better by an NRSRO, or which are of comparable quality in the judgment of the Fund's investment adviser);

asset-backed securities;

commercial paper that matures in 270 days or less and is rated A-1 or A-2 by

S&P, P-1 or P-2 by Moody's, or F-1 or F-2 by Fitch;

time and savings deposits (including certificates of deposit) in commercial or savings banks whose accounts are insured by the Bank Insurance Fund ("BIF"), or in institutions whose accounts are insured by the Savings Association Insurance Fund ("SAIF"), including certificates of deposit issued by, and other time deposits in, foreign branches of BIF-insured banks which, if negotiable, mature in six months or less or if not negotiable, either mature in ninety days or less, or may be withdrawn upon notice not exceeding ninety days;

bankers' acceptances issued by a BIF-insured bank, or issued by the bank's Edge Act subsidiary and guaranteed by the bank, with remaining maturities of nine months or less. The total acceptances of any bank held by the Fund cannot exceed 0.25% of such bank's total deposits according to the bank's last published statement of condition preceding the date of acceptance;

preferred stock and other equity-related securities which generally have bond-like attributes, including zero coupon and/or convertible securities;

other securities which are deemed by the Fund's investment adviser, Federated Advisers (the "Adviser"), to be consistent with the Fund's investment objective; and

repurchase agreements collateralized by acceptable investments.

CORPORATE DEBT OBLIGATIONS

Although the Fund will invest primarily in corporate debt obligations that are rated as investment grade by a NRSRO, or are determined to be comparable quality in the judgment of the Adviser, the Fund may invest up to 35% of the value of its total assets in corporate debt obligations that are not investment grade bonds, but are rated B or better by a NRSRO (i.e., "junk bonds"). Corporate debt obligations that are not determined to be investment grade are high-yield, high-risk bonds, typically subject to greater market fluctuations and greater risk of loss of income and principal due to an issuer's default. To a greater extent than investment grade bonds, lower rated bonds tend to reflect short-term corporate, economic, and market developments, as well as investor perceptions of the issuer's credit quality. In addition, lower rated bonds may be more difficult to dispose of or to value than higher rated, lower-yielding bonds. Bonds rated "BBB" by S&P or Fitch, or "Baa" by Moody's, have speculative characteristics. Changes in economic conditions or other circumstances are more likely to lead to weakened capacity to make principal and interest payments than higher rated bonds.

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

<TABLE>
<CAPTION>

CREDIT RATING	AS A PERCENTAGE OF TOTAL MARKET VALUE OF BOND HOLDINGS AS OF DECEMBER 31, 1994
<S>	<C>
BB.....................	6.8%
B......................	26.5
CC & CCC...............	.8

	34.1%

</TABLE>

U.S. GOVERNMENT OBLIGATIONS

The U.S. government obligations in which the Fund invests are either issued or guaranteed by the U.S. government, its agencies, or instrumentalities. These securities include, but are not limited to:

direct obligations of the U.S. Treasury, such as U.S. Treasury bills, notes, and bonds; and

notes, bonds, and discount notes of U.S. government agencies or instrumentalities, such as the Federal Farm Credit System, Federal Home Loan Banks System, Federal National Mortgage Association, Student Loan Marketing Association, and Federal Home Loan Mortgage Corporation.

Some obligations issued or guaranteed by agencies or instrumentalities of the U.S. government, such as Government National Mortgage Association participation certificates, are backed by the full faith and credit of the U.S. Treasury. No assurances can be given that the U.S. government will provide financial support to other agencies or instrumentalities, since it is not obligated to do so. These agencies and instrumentalities are supported by:

the issuer's right to borrow an amount limited to a specific line of credit from the U.S. Treasury;

discretionary authority of the U.S. government to purchase certain obligations of an agency or instrumentality; or

the credit of the agency or instrumentality.

MUNICIPAL SECURITIES

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. 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.

ASSET-BACKED SECURITIES

Asset-backed securities are created by the grouping of certain governmental, government related and private loans, receivables and other lender assets including vehicle installment purchase obligations and credit card receivables into pools. Interests in these pools are sold as individual securities and are not backed or guaranteed by the U.S. government and may not be secured. Payments from the asset pools may be divided into several different tranches of debt securities, with some tranches entitled to receive regular installments of principal and interest, other tranches entitled to receive regular installments of interest, with principal payable at maturity or upon specified call dates, and other tranches only entitled to receive payments of principal and accrued interest at maturity or upon specified call dates. Different tranches of securities will bear different interest rates, which may be fixed or floating.

Because the loans held in the asset pool often may be prepaid without penalty or premium, asset-backed securities are generally subject to higher prepayment risks than most other types of debt instruments. Prepayment risks on mortgage securities tend to increase during periods of declining mortgage interest rates, because many borrowers refinance their mortgages to take advantage of the more favorable rates. Depending upon market conditions, the yield that the Fund receives from the reinvestment of such prepayments, or any scheduled principal payments, may be lower than the yield on the original mortgage security. As a consequence, mortgage securities may be a less effective means of "locking in" interest rates than other types of debt securities having the same stated maturity and may also have less potential for capital appreciation. For certain types of asset pools, such as collateralized mortgage obligations, prepayments may be allocated to one tranch of securities ahead of other tranches, in order to reduce the risk of prepayment for the other tranches.

Prepayments may result in a capital loss to the Fund to the extent that the prepaid mortgage securities were purchased at a market premium over their stated amount. Conversely, the prepayment of mortgage securities purchased at a market discount from their stated principal amount will accelerate the recognition of interest income by the Fund, which would be taxed as ordinary income when distributed to the shareholders.

The credit characteristics of asset-backed securities also differ in a number of respects from those of traditional debt securities. The credit quality of most asset-backed securities depends primarily upon the credit quality of the assets underlying such securities, how well the entity issuing the securities is insulated from the credit risk of the originator or any other affiliated entities, and the amount and quality of any credit enhancement to such securities.

NON-MORTGAGE RELATED ASSET-BACKED SECURITIES

The Fund may invest in non-mortgage related asset-backed securities including, but not limited to, interests in pools of receivables, such as credit card and accounts receivable and motor vehicle and other installment purchase obligations and leases. These securities may be in the form of pass-through instruments or asset-backed obligations. The securities, all of which are issued by non-governmental entities and carry no direct or indirect government guarantee, are structurally similar to collateralized mortgage obligations and mortgage pass-through securities, which are described below.

MORTGAGE RELATED ASSET-BACKED SECURITIES

The Fund may also invest in various mortgage-related asset-backed securities. These types of investments may include adjustable rate mortgage securities, collateralized mortgage obligations, real estate mortgage investment conduits, or other securities collateralized by or representing an interest in real estate mortgages (collectively, "mortgage securities"). Many mortgage securities are issued or guaranteed by government agencies.

ADJUSTABLE RATE MORTGAGE SECURITIES ("ARMS")

ARMs are pass-through mortgage securities representing interests in adjustable rather than fixed interest rate mortgages. The ARMs in which the Fund invests are issued by the Government National Mortgage Association ("GNMA"), the Federal National Mortgage Association ("FNMA"), and the Federal Home Loan Mortgage Corporation ("FHLMC") and are actively traded. The underlying mortgages which collateralize ARMs issued by GNMA are fully guaranteed by the Federal Housing Administration ("FHA") or Veterans Administration ("VA"), while those collateralizing ARMs

issued by FHLMC or FNMA are typically conventional residential mortgages conforming to strict underwriting size and maturity constraints.

COLLATERALIZED MORTGAGE OBLIGATIONS ("CMOS")

CMOs are bonds issued by single-purpose, stand-alone finance subsidiaries or trusts of financial institutions, government agencies, investment bankers, or companies related to the construction industry. CMOs purchased by the Fund may be:

collateralized by pools of mortgages in which each mortgage is guaranteed as to payment of principal and interest by an agency or instrumentality of the U.S. government;

collateralized by pools of mortgages in which payment of principal and interest is guaranteed by the issuer and such guarantee is collateralized by U.S. government securities; or

securities in which the proceeds of the issuance are invested in mortgage securities and payment of the principal and interest is supported by the credit of an agency or instrumentality of the U.S. government.

All CMOs purchased by the Fund are investment grade, as rated by a NRSRO.

REAL ESTATE MORTGAGE INVESTMENT CONDUITS ("REMICS")

REMICs are offerings of multiple class real estate mortgage-backed securities which qualify and elect treatment as such under provisions of the Internal Revenue Code, as amended (the "Code"). Issuers of REMICs may take several forms, such as trusts, partnerships, corporations, associations, or segregated pools of mortgages. Once REMIC status is elected and obtained, the entity is not subject to federal income taxation. Instead, income is passed through the entity and is taxed to the person or persons who hold interests in the REMIC. A REMIC interest must consist of one or more classes of "regular interests," some of which may offer adjustable rates of interest, and a single class of "residual interests." To qualify as a REMIC, substantially all the assets of the entity must be in assets directly or indirectly secured principally by real property.

RESETS OF INTEREST

The interest rates paid on the ARMs, CMOs, and REMICs in which the Fund invests generally are readjusted at intervals of one year or less to an increment over some predetermined interest rate index. There are two main categories of indices: those based on U.S. Treasury securities and those derived from a calculated measure, such as a cost of funds index or a moving average of mortgage rates. Commonly utilized indices include the one-year and five-year constant maturity Treasury Note rates, the three-month Treasury Bill rate, the 180-day Treasury Bill rate, rates on longer-term Treasury securities, the National Median Cost of Funds, the one-month or three-month London Interbank Offered Rate (LIBOR), the prime rate of a specific bank, or commercial paper rates. Some indices, such as the one-year constant maturity Treasury Note rate, closely mirror changes in market interest rate levels. Others tend to lag changes in market rate levels and tend to be somewhat less volatile.

To the extent that the adjusted interest rate on the mortgage security reflects current market rates, the market value of an adjustable rate mortgage security will tend to be less sensitive to interest rate changes than a fixed rate debt security of the same stated maturity. Hence, adjustable rate mortgage securities which use indices that lag changes in market rates should experience greater price volatility than adjustable rate mortgage securities that closely mirror the market. Certain residual interest tranches of

CMOs may have adjustable interest rates that deviate significantly from prevailing market rates, even after the interest rate is reset, and are subject to correspondingly increased price volatility. In the event the Fund purchases such residual interest mortgage securities, it will factor in the increased interest and price volatility of such securities when determining its dollar-weighted average duration.

CAPS AND FLOORS

The underlying mortgages which collateralize the ARMs, CMOs, and REMICs in which the Fund invests will frequently have caps and floors which limit the maximum amount by which the loan rate to the residential borrower may change up or down: (1) per reset or adjustment interval, and (2) over the life of the loan. Some residential mortgage loans restrict periodic adjustments by limiting changes in the borrower's monthly principal and interest payments rather than limiting interest rate changes.

These payment caps may result in negative amortization. The value of mortgage securities in which the Fund invests may be affected if market interest rates rise or fall faster and farther than the allowable caps or floors on the underlying residential mortgage loans. Additionally, even though the interest rates on the underlying residential mortgages are adjustable, amortization and prepayments may occur, thereby causing the effective maturities of the mortgage securities in which the Fund invests to be shorter than the maturities stated in the underlying mortgages.

BANK INSTRUMENTS

The Fund only invests in bank instruments either issued by an institution having capital, surplus and undivided profits over $100 million or insured by BIF or SAIF. Bank instruments may include Eurodollar Certificates of Deposit ("ECDs"), Yankee Certificates of Deposit ("Yankee CDs") and Eurodollar Time Deposits ("ETDs"). Due to the fact that institutions issuing such instruments are not necessarily subject to the same regulatory requirements that apply to domestic banks, such as the reserve requirements, loan limitations, examination, accounting, auditing, recordkeeping, and the public availability of information, these investments may present additional risks to investors.

ZERO COUPON CONVERTIBLE SECURITIES

Zero coupon convertible securities are debt securities which are issued at a discount to their face amount and do not entitle the holder to any periodic payments of interest prior to maturity. Rather, interest earned on zero coupon convertible securities accretes at a stated yield until the security reaches its face amount at maturity. Zero coupon convertible securities are convertible into a specific number of shares of the issuer's common stock. In addition, zero coupon convertible securities usually have put features that provide the holder with the opportunity to put the bonds back to the issuer at a stated price before maturity. Generally, the prices of zero coupon convertible securities may be more sensitive to market interest rate fluctuations than conventional convertible securities.

Federal income tax law requires the holder of a zero coupon convertible security to recognize income with respect to the security prior to the receipt of cash payments. To maintain its qualification as a regulated investment company and avoid liability of federal income taxes, the Fund will be required to distribute income accrued with respect to zero coupon convertible securities which it owns, and may have to sell portfolio securities (perhaps at disadvantageous times) in order to generate cash to satisfy these distribution requirements.

RESTRICTED AND ILLIQUID SECURITIES

The Fund intends to invest in restricted securities. Restricted securities are any securities in which the Fund may otherwise invest pursuant to its investment objective and policies, but which are subject to restriction on resale under federal securities law. However, the Fund will limit investments in illiquid securities, including certain restricted securities determined by the Directors to be illiquid, non-negotiable time deposits, unlisted options, and repurchase agreements providing for settlement in more than seven days after notice, to 15% of its net assets.

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

FOREIGN SECURITIES

The Fund reserves the right to invest up to 25% of its total assets in fixed income securities of foreign governmental units located within an individual foreign nation and to purchase or sell various currencies on either a spot or forward basis in connection with these investments. Investments in foreign securities, particularly those of non-governmental issuers, involve considerations which are not ordinarily associated with investments in domestic issuers. These considerations include the possibility of expropriation, the unavailability of financial information or the difficulty of interpreting financial information prepared under foreign accounting standards, less liquidity and more volatility in foreign securities markets, the impact of political, social, or diplomatic developments, and the difficulty of assessing economic trends in foreign countries. It may also be more difficult to enforce contractual obligations abroad than would be the case in the United States because of differences in the legal systems. Transaction costs in foreign securities may be higher. The Adviser will consider these and other factors before investing in foreign securities and will not make such investments unless, in its opinion, such investments will meet the Fund's standards and objectives.

INVESTING IN SECURITIES OF OTHER INVESTMENT COMPANIES

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

TEMPORARY INVESTMENTS

The Fund may also invest temporarily in cash and cash items during times of unusual market conditions for defensive purposes and to maintain liquidity.

REPURCHASE AGREEMENTS

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

WHEN-ISSUED OR DELAYED DELIVERY TRANSACTIONS

The Fund may purchase securities on a when-issued or delayed delivery basis. These transactions are arrangements in which the Fund purchases securities with payment and delivery scheduled for a future time. The seller's failure to complete the transaction may cause the Fund to miss a price or yield considered to be advantageous. Settlement dates may be a month or more after entering into these transactions, and the market values of the securities purchased may vary from the purchase prices. Accordingly, the Fund may pay more/less than the market value of the securities on the settlement date.

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

LENDING OF PORTFOLIO SECURITIES

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

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

PUT AND CALL OPTIONS

The Fund may purchase put options on financial futures contracts and put options on portfolio securities. Financial futures may include index futures. These options will be used as a hedge to attempt to protect securities which the Fund holds against decreases in value. For the immediate future, the Fund will enter into futures contracts directly only when it desires to exercise a financial futures put option in its portfolio rather than either closing out the option or allowing it to expire. The Fund will only purchase puts on financial futures contracts which are traded on a nationally recognized exchange.

The Fund will generally purchase over-the-counter put options on portfolio securities in negotiated transactions with the writers of the options since options on the portfolio securities held by the Fund are typically not traded on an exchange. The Fund purchases options only

from investment dealers and other financial associations (such as commercial banks or savings and loan institutions) deemed creditworthy by the Adviser.

In general, over-the-counter put options differ from exchange traded put options in the following respects. Over-the-counter put options are two party contracts with price and terms negotiated between buyer and seller, and such options are endorsed and/or guaranteed by third parties (such as a New York Stock Exchange member). Additionally, over-the-counter strike prices are adjusted to reflect dividend payments, initial strike prices are generally set at market, and option premiums (which are all time premiums) are amortized on a straight line basis over the life of the option. In contrast, exchange traded options are third-party contracts with standardized strike prices and expiration dates and are purchased from the Clearing Corporation. Strike prices are not adjusted for dividends, and options are marked to market, thereby obviating the need to amortize the time premium. Exchange traded options have a continuous liquid market while over-the-counter options do not.

The Fund may also write call options on all or any portion of its portfolio in an effort to generate income for the Fund. The Fund will write call options on securities either held in its portfolio or which it has the right to obtain without payment of further consideration or for which it has segregated cash in the amount of any additional consideration. The call options which the Fund writes and sells must be listed on a recognized options exchange. Although the Fund reserves the right to write covered call options on its entire portfolio, it will not write such options on more than 25% of its total assets unless a higher limit is authorized by its Directors.

The Fund may attempt to hedge the portfolio by entering into financial futures contracts and to write calls on financial futures contracts.

RISKS

When the Fund writes a call option, the Fund risks not participating in any rise in the value of the underlying security. In addition, when the Fund purchases puts on financial futures contracts to protect against declines in prices of portfolio securities, there is a risk that the prices of the securities subject to the futures contracts may not correlate perfectly with the prices of the securities in the Fund's portfolio. This may cause the futures contract and its corresponding put to react differently than the portfolio securities to market changes. In addition, the Adviser could be incorrect in its expectations about the direction or extent of market factors such as interest rate movements. In such an event, the Fund may lose the purchase price of the put option. Finally, it is not certain that a secondary market for options will exist at all times. Although the Adviser will consider liquidity before entering into option transactions, there is no assurance that a liquid secondary market on an exchange will exist for any particular option or at any particular time. The Fund's ability to establish and close out option positions depends on this secondary market.

DERIVATIVE CONTRACTS AND SECURITIES

The term "derivative" has traditionally been applied to certain contracts (including, futures, forward, option and swap contracts) that "derive" their value from changes in the value of an underlying security, currency, commodity or index. Certain types of securities that incorporate the performance characteristics of these contracts are also referred to as "derivatives." The term has also been applied to securities "derived" from the cash flows from underlying securities, mortgages or other obligations.

Derivative contracts and securities can be used to reduce or increase the volatility of an investment portfolio's total performance. While the

response of certain dervative contracts and securities to market changes may differ from traditional investments, such as stock and bonds, derivatives do not necessarily present greater market risks than traditional investments. The Fund will only use derivative contracts for the purposes disclosed in the applicable prospectus sections above. To the extent that the Fund invests in securities that could be characterized as derivatives, such as asset-backed securities and mortgage-backed securities, including ARMs, CMOs, and REMICs, it will only do so in a manner consistent with its investment objectives, policies and limitations.

INVESTMENT LIMITATIONS

The Fund will not:

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

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

sell securities short except, under strict limitations, it may maintain open short positions so long as not more than 10% of the value of its net assets is held as collateral for those positions; nor

with respect to 75% of the value of its total assets, invest more than 5% in securities of any one issuer other than cash, cash items or securities issued or guaranteed by the government of the United States, its agencies, or instrumentalities and repurchase agreements collateralized by such securities.

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

The Fund will not:

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

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NET ASSET VALUE

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

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INVESTING IN FORTRESS SHARES

SHARE PURCHASES

Shares are sold on days on which the New York Stock Exchange is open. Shares may be purchased through a financial institution who has a sales agreement with the distributor, or directly from the distributor, Federated Securities Corp., either by mail or by wire. The Fund reserves the right to reject any purchase request.

THROUGH A FINANCIAL INSTITUTION

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

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

periods (see "Other Payments to Financial Institutions").

DIRECTLY BY MAIL

To purchase Shares by mail directly from Federated Securities Corp.:

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

enclose a check made payable to Federated Bond Fund--Fortress Shares; and

mail both to the Fund's transfer agent, Federated Services Company, c/o State Street Bank and Trust Company, P.O. Box 8604, Boston, Massachusetts 02266-8604.

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

DIRECTLY BY WIRE

To purchase Shares directly from Federated Securities Corp. by Federal Reserve wire, call the Fund. All information needed will be taken over the telephone, and the order is considered received when the transfer agent's bank receives payment by wire.

MINIMUM INVESTMENT REQUIRED

The minimum initial investment in Shares is $1,500, except for an IRA account, which requires a minimum initial investment of $50. Subsequent investments must be in amounts of at least $100, except for an IRA account, which must be in amounts of at least $50.

WHAT SHARES COST

Shares are sold at their net asset value next determined after an order is received, plus a sales load of 1.00% of the offering price (which is 1.00% of the net amount invested). There is no sales load for purchases of $1 million or more. In addition, no sales load is imposed for Shares purchased through bank trust departments or investment advisers registered under the Investment Advisers Act of 1940, as amended, purchasing on behalf of their clients, or by sales representatives, Directors, and employees of the Fund, the Adviser, and Federated Securities Corp., or their affiliates, or any investment dealer who has a sales agreement with Federated Securities Corp., their spouses and children under age 21, or any trusts or pension or profit-sharing plans for these persons or retirement plans where the third party administrator has entered into certain arrangements with Federated Securities Corp., or its affiliates, to the extent that no payment was advanced for purchases made by such entities. Unaffiliated institutions through whom Shares are purchased may charge fees for services provided which may be related to the ownership of Fund Shares. This prospectus should, therefore, be read together with any agreement between the customer and the institution with regard to services provided, the fees charged for these services, and any restrictions and limitations imposed.

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

Under certain circumstances, described under "Redeeming Fortress Shares," shareholders may be charged a contingent deferred sales

charge by the distributor at the time Shares are redeemed.

DEALER CONCESSION

For sales of Shares, broker/dealers will normally receive 100% of the applicable sales load. Any portion of the sales load which is not paid to a broker/dealer will be retained by the distributor. However, from time to time, and at the sole discretion of the distributor, all or a part of that portion may be paid to a dealer. The sales load for Shares sold other than through registered broker/dealers will be retained by Federated Securities Corp. Federated Securities Corp. may pay fees to banks out of the sales load in exchange for sales and/or administrative services performed on behalf of the bank's customers in connection with the initiation of customer accounts and purchases of Shares.

ELIMINATING THE SALES LOAD

The sales load can be eliminated on the purchase of Shares through:

quantity discounts and accumulated purchases;

signing a 13-month letter of intent;

using the reinvestment privilege; or

concurrent purchases.

QUANTITY DISCOUNTS AND
ACCUMULATED PURCHASE

There is no sales load for purchases of $1 million or more. The Fund will combine purchases made on the same day by the investor, his spouse, and his children under age 21 when it calculates the sales load.

If an additional purchase of Shares is made, the Fund will consider the previous purchases still invested in the Fund. For example, if a shareholder already owns Shares having a current value at the public offering price of $900,000 and he purchases $100,000 more at the current public offering price, there will be no sales load on the additional purchase. The Fund will also combine purchases for the purpose of reducing the contingent deferred sales charge imposed on some Share redemptions. For example, if a shareholder already owns Shares having current value at a public offering price of $1 million and purchases an additional $1 million at the current public offering price, the applicable contingent deferred sales charge would be reduced to .50% of those additional Shares. For more information on the levels of contingent deferred sales charges and holding periods, see the section entitled "Contingent Deferred Sales Charge."

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

LETTER OF INTENT

If a shareholder intends to purchase at least $1 million of Shares over the next 13 months, the sales load may be reduced by signing a letter of intent to that effect. This letter of intent includes a provision for a sales load elimination depending on the amount actually purchased within the 13-month period and a provision for the Fund's custodian to hold 1.00% of the total amount intended to be purchased in escrow (in Shares) until such purchase is completed.

The 1.00% held in escrow will be applied to the shareholder's account at the end of the 13-month period unless the amount specified in the letter of intent, which must be $1 million or more of Shares, is not purchased. In this event, an appropriate number of escrowed Shares may be redeemed in order to realize the 1.00% sales load.

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

This letter of intent will not obligate the shareholder to purchase Shares. The letter may be dated as of a prior date to include any purchases made within the past 90 days (purchases within the prior 90 days may be used to fulfill the requirements of the letter of intent; however, the sales load on such purchases will not be adjusted to reflect a lower sales load).

REINVESTMENT PRIVILEGE

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

CONCURRENT PURCHASES

For purposes of qualifying for a sales load elimination, a shareholder has the privilege of combining concurrent purchases of two or more funds in the Fortress Investment Program, the purchase price of which includes a sales load. For example, if a shareholder concurrently invested $400,000 in one of the other Fortress Funds, and $600,000 in Shares, the sales load would be eliminated.

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

SYSTEMATIC INVESTMENT PROGRAM

Once a Fund account has been opened, shareholders may add to their investment on a regular basis in amounts of not less than $100 per transaction. Under this program, funds may be automatically withdrawn periodically from the shareholder's checking account and invested in Shares at the net asset value next determined after an order is received by the Fund plus the 1.00% sales load for purchases under $1 million. A shareholder may apply for participation in this program through Federated Securities Corp. or his financial institution.

EXCHANGE PRIVILEGES

Shares in other Fortress Funds may be exchanged for Shares at net asset value without a sales load (if previously paid) or a contingent deferred sales charge. The exchange privilege is available to shareholders residing in any state in which the shares being acquired may be sold.

Shares in certain Federated Funds which are advised by subsidiaries or affiliates of Federated Investors may also be exchanged for Shares at net asset value (plus a sales load, if applicable). Shareholders using this privilege must exchange Shares having a net asset value equal to the minimum investment requirements of the fund into which the exchange is being made. Shareholders who desire to automatically exchange Shares of a predetermined amount on a monthly, quarterly, or annual basis may take advantage of a systematic exchange privilege. Further information on these exchange privileges is available by calling Federated Securities Corp. or the shareholder's financial institution.

Before making an exchange, a shareholder must receive a prospectus of the fund for which the exchange is being made.

CERTIFICATES AND CONFIRMATIONS

As transfer agent for the Fund, Federated Services Company maintains a share account for each shareholder. Share certificates are not issued unless requested on the application or by contacting the Fund.

Detailed confirmations of each purchase or redemption are sent to each shareholder. Monthly statements are sent to report dividends paid during the month.

DIVIDENDS AND DISTRIBUTIONS

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

RETIREMENT PLANS

Shares of the Fund can be purchased as an investment for retirement plans (including 401(k) and 403(b) plans) or for individual retirement accounts (IRAs). For further details, contact Federated Securities Corp. and consult with a tax adviser.

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REDEEMING FORTRESS SHARES

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

THROUGH A FINANCIAL INSTITUTION

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

Before a financial institution may request redemption by telephone on behalf of a shareholder, an authorization form permitting the

Fund to accept redemption requests by telephone must first be completed. Telephone redemption instructions may be recorded. If reasonable procedures are not followed by the Fund, it may be liable for losses due to unauthorized or fraudulent telephone instructions. In the event of drastic economic or market changes, a shareholder may experience difficulty in redeeming by telephone. If such a case should occur, another method of redemption, such as "Directly by Mail", should be considered.

DIRECTLY BY MAIL

Shareholders may also redeem Shares by sending a written request to Federated Services Company, c/o State Street Bank and Trust Company, P.O. Box 8604, Boston, Massachusetts 02266-8604. This written request must include the shareholder's name, the Fund name and class of shares, the account number, and the share or dollar amount to be redeemed. Shares will be redeemed at their net asset value, less any applicable contingent deferred sales charge, next determined after the Fund receives the redemption request.

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

SIGNATURES

Shareholders requesting a redemption of $50,000 or more, a redemption of any amount to be sent to an address other than that on record with the Fund, or a redemption payable other than to the shareholder of record must have signatures of all registered owners 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 Federal Deposit Insurance Corporation ("FDIC");

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

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

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

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

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

RECEIVING PAYMENT

A check for the proceeds is mailed within seven days after receipt of proper written redemption request, provided State Street Bank has collected payment for Shares from the shareholder instructions from a broker or from the shareholder.

CONTINGENT DEFERRED SALES CHARGE

Shareholders redeeming Shares from their Fund accounts within certain time periods of the purchase date of those Shares will be charged a contingent deferred sales charge by the Fund's distributor of the lesser of the original price or the net asset value of the Shares redeemed as follows:

AMOUNT OF PURCHASE	SHARES HELD	CONTINGENT DEFERRED SALES CHARGE
Up to $1,999,999	less than 4 years	1.00%
$2,000,000 to $4,999,000	less than 2 years	.50%
$5,000,000 or more	less than 1 year	.25%

To the extent that a shareholder exchanges between or among Fortress Shares in other funds in the Fortress Investment Program, the time for which the exchanged-for Shares were held will be added, or "tacked", to the time for which the exchanged-from Shares were held for purposes of satisfying the one-year holding period.

In instances in which Shares have been acquired in exchange for shares in other Fortress Funds, (i) the purchase price is the price of the shares when originally purchased and (ii) the time period during which the shares are held will run from the date of the original purchase. The contingent deferred sales charge will not be imposed on shares acquired through the reinvestment of dividends or distributions of long-term capital gains. In computing the amount of contingent deferred sales charge for accounts with shares subject to a single holding period, if any, redemptions are deemed to have occurred in the following order: 1) first of shares acquired through the reinvestment of dividends and long-term capital gains, 2) second of purchases of shares occurring prior to the number of years necessary to satisfy the applicable holding period, and 3) finally of purchases of shares occurring within the current holding period. For accounts with shares subject to multiple share holding periods, the redemption sequence will be determined first, with reinvested dividends and long-term capital gains, and second, on a first-in, first-out basis.

The contingent deferred sales charge will not be imposed when a redemption results from a tax-free return under the following circumstances: (i) a total or partial distribution from a qualified plan, other than an IRA, Keogh Plan, or a custodial account, following retirement; (ii) a total or partial distribution from an IRA, Keogh Plan, or a custodial account after the beneficial owner attains age 59-1/2; or (iii) from the death or disability of the beneficial owner. The exemption from the contingent deferred sales charge for qualified plans, an IRA, Keogh Plan, or a custodial account does not extend to account transfers, rollovers, and other redemptions made for purposes of reinvestment. Contingent deferred sales charges are not charged in connection with exchanges of Shares for shares in other Fortress Funds, or in connection with redemptions by the Fund of accounts with low balances. Shares of the Fund originally purchased through a bank trust department or investment adviser registered under the Investment Advisers Act of 1940, as amended, and third-party administrators acting on behalf of deferred contribution plans, are not subject to the contingent deferred sales charge, to the extent that no payment was advanced for purchases made by such entities.

SYSTEMATIC WITHDRAWAL PROGRAM

Shareholders who desire to receive monthly or quarterly payments of a predetermined amount may take advantage of the Systematic Withdrawal Program. Under this program, Shares are redeemed to provide for periodic withdrawal payments in an amount directed by the shareholder; the minimum withdrawal amount is $100. Depending upon the amount of the withdrawal payments, the amount of dividends paid and capital gains distributions with respect to Shares, and the fluctuation of the net asset value of Shares redeemed under this program, redemptions may reduce, and eventually deplete, the shareholder's investment in the Fund. For this reason, payments under this program should not be considered as yield or income on the shareholder's investment in the

Fund. To be eligible to participate in this program, a shareholder must have invested at least $10,000 in the Fund (at current offering price).

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

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

ACCOUNTS WITH LOW BALANCES

Due to the high cost of maintaining accounts with low balances, the Fund may redeem Shares in any account, except retirement plans, and pay the proceeds to the shareholder if the account balance falls below the minimum required value of $1,000. This requirement does not apply, however, if the balance falls below $1,000 because of changes in the Fund's net asset value.

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

EXCHANGES FOR SHARES OF OTHER FUNDS

Shares may be exchanged for shares in other Fortress Funds at net asset value without a contingent deferred sales charge or a sales load.

Shares may also be exchanged for shares in other Federated Funds which are advised by subsidiaries or affiliates of Federated Investors. With the exception of exchanges into other Fortress Funds, such exchanges will be subject to a contingent deferred sales charge and possibly a sales load.

Shareholders using this privilege must exchange shares having a net asset value equal to the minimum investment required for the fund into which the exchange is being made. A shareholder may obtain information on the exchange privilege, and may obtain prospectuses for other Fortress Funds and Federated Funds by calling Federated Securities Corp. or his financial institution.

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INVESTMENT SERIES FUNDS, INC.
INFORMATION

MANAGEMENT OF THE CORPORATION

BOARD OF DIRECTORS

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

INVESTMENT ADVISER

Investment decisions for the Fund are made by Federated Advisers, the Fund's investment adviser, subject to direction by the Directors. The Adviser continually conducts investment research and supervision for the Fund and is responsible for the purchase or sale of portfolio instruments, for which it receives an annual fee from the Fund.

ADVISORY FEES

The Adviser receives an annual investment advisory fee equal to .75 of 1% of the Fund's average daily net assets. The fee paid by the Fund, while higher than the advisory fee paid by other mutual funds in general, is comparable to fees paid by other mutual funds with similar objectives and policies. The Adviser may voluntarily waive a portion of its fee or reimburse the Fund for certain operating expenses. The Adviser can terminate this voluntary waiver at any time at its sole discretion. The Adviser has also undertaken to reimburse the Fund for operating expenses in excess of limitations established by certain states.

ADVISER'S BACKGROUND

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

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

Joseph M. Balestrino has been the Fund's portfolio manager since June, 1992. Mr. Balestrino joined Federated Investors in 1986 and has been an Assistant Vice President of the Fund's investment adviser since 1991. Mr. Balestrino served as an Investment Analyst of the investment adviser from 1989 until 1991, and from 1986 until 1989 he acted as Project Manager in the Product Development Department. Mr. Balestrino is a Chartered Financial Analyst and received his M.U.R.P. in Urban and Regional Planning from the University of Pittsburgh.

Mark E. Durbiano has been the Fund's portfolio manager since June, 1992. Mr. Durbiano joined Federated Investors in 1982 and has been a Vice President of the Fund's investment adviser since 1988. Mr. Durbiano is a Chartered Financial Analyst and received his M.B.A. in Finance from the University of Pittsburgh.

DISTRIBUTION OF FORTRESS SHARES

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

SHAREHOLDER SERVICES

The Fund has entered into a Shareholder Services Agreement with Federated Shareholder Services, a subsidiary of Federated Investors, under which the Fund may make payments up to .25 of 1% of the average daily net asset value of Fortress Shares, computed at an annual rate, to obtain certain personal services for shareholders and the maintenance of shareholder accounts ("shareholder services"). Under the Shareholder Services Agreement, Federated Shareholder Services will either perform shareholder services directly or will select financial institutions to perform shareholder services. Financial institutions will receive fees based upon shares owned by their clients or customers. The schedules of such fees and the basis upon which such fees will be paid will be determined from time to time by the Fund and Federated Shareholder Services.

In addition to payments made pursuant to the Shareholder Services Agreement, Federated Securities Corp. and Federated Shareholder Services, from their own assets, may pay financial institutions supplemental fees for the performance of sales services, distribution-related support services, or shareholder services.

OTHER PAYMENTS TO FINANCIAL INSTITUTIONS

The distributor will pay financial institutions, for distribution and/or administrative services, an amount equal to 1.00% of the offering price of the Shares acquired by their clients or customers on purchases up to $1,999,999, .50% of the offering price on purchases of $2,000,000 to $4,999,999, and .25% of the offering price on purchases of $5,000,000 or more. (This fee is in addition to the 1.00% sales load on purchases of less that $1 million.) The financial institutions may elect to waive the initial payment described above; such waiver will result in the waiver by the Fund of the otherwise applicable contingent deferred sales charge.

Furthermore, the distributor may offer to pay a fee from its own assets to financial institutions as financial assistance for providing substantial marketing and sales support. The support may include participating in sales, educational and training seminars at recreational-type facilities, providing sales literature, and engineering computer software programs that emphasize the attributes of the Fund. Such assistance will be predicated upon the amount of Shares the financial institution sells or may sell, and/or upon the type and nature of sales or marketing support furnished by the financial institution. Any payments made by the distributor may be reimbursed by the Adviser or its affiliates.

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 Directors will consider appropriate changes in the services.

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

ADMINISTRATION OF THE FUND

ADMINISTRATIVE SERVICES

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

<TABLE>
<CAPTION>

MAXIMUM FEE	AVERAGE AGGREGATE DAILY NET ASSETS OF THE FEDERATED FUNDS
<C>	<S>
.15 of 1%	on the first $250 million
.125 of 1%	on the next $250 million
.10 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 $125,000 per portfolio and $30,000 per each additional class of shares. Federated Administrative Services may choose voluntarily to waive a portion of its fee.

CUSTODIAN

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

TRANSFER AGENT AND DIVIDEND
DISBURSING AGENT

Federated Services Company, P.O. Box 8604, Boston, Massachusetts 02266-8604, is transfer agent for Shares of the Fund and dividend disbursing agent for the Fund.

INDEPENDENT AUDITORS

The independent auditors for the Fund are Ernst & Young LLP, One Oxford Centre, Pittsburgh, Pennsylvania 15219.

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SHAREHOLDER INFORMATION

VOTING RIGHTS

Each Share gives the shareholder one vote in Director elections and other matters submitted to shareholders for vote. All shares of each portfolio or class in the Fund have equal voting rights, except that in matters affecting only a particular portfolio or class, only shares of that portfolio or class are entitled to vote. As of
June 22, 1995, Merrill Lynch Pierce Fenner & Smith, acting in various capacities for numerous accounts, was the owner of record of approximately 4,625,053 shares (25.60%) of the Fund, and therefore, may, for certain purposes, be deemed to control the Fund and be able to affect the outcome of certain matters presented for a vote of shareholders.

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

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

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TAX INFORMATION

FEDERAL INCOME TAX

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

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

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

PENNSYLVANIA PERSONAL PROPERTY TAXES

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

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

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PERFORMANCE INFORMATION

From time to time the Fund advertises its total return and yield for Fortress Shares and the Fund's other classes of shares (described below under "Other Classes of Shares").

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

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

Total return and yield will be calculated separately for Class A Shares, Class C Shares, and Fortress Shares.

From time to time, advertisements for the Class A Shares, Class B Shares, Class C Shares, and Fortress Shares of the Fund may refer to ratings, rankings, and other information in certain financial publications and/or compare the performance of Class A Shares, Class B Shares, Class C Shares and Fortress Shares to certain indices.

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OTHER CLASSES OF SHARES

The Fund also offers other classes of shares called Class A Shares, Class B Shares, and Class C Shares that are sold primarily to customers of financial institutions.

Class A Shares are sold subject to a front-end sales load, a Rule 12b-1 Plan and a Shareholder Services Plan. Investments in Class A Shares are subject to a minimum initial investment of $500, unless the investment is in a retirement account, in which the minimum investment is $50.

Class B Shares are sold at net asset value subject to a contingent deferred sales charge, a Rule 12b-1 Plan and a Shareholder Services Plan. Investments in Class B Shares are subject to a minimum initial investment of $1,500, unless the investment is in a retirement account, in which the minimum investment is $50.

Class C Shares are sold at net asset value subject to a contingent deferred sales charge, a Rule 12b-1 Plan and a Shareholder Services Plan. Investments in Class C Shares are subject to a minimum investment of $1,500, unless the investment is in a retirement account, in which the minimum investment is $50.

Class A, B and C Shares and Fortress Shares are subject to certain of the same expenses. Expense differences, however, between Class A, B and C Shares and Fortress Shares may affect the performance of each class.

To obtain more information and a combined prospectus for Class A , B and C Shares, investors may call 1-800-235-4669.

Federated Bond Fund
(formerly, Fortress Bond Fund)
Portfolio of Investments

October 31, 1994

<TABLE>
<CAPTION>

PRINCIPAL AMOUNT		VALUE
<C>	<S>	<C>
CORPORATE BONDS--88.3%		
	AEROSPACE & DEFENSE--2.5%	
$ 3,450,000	Grumman Corp., Deb., 10.375%, 1/1/99	$ 3,586,827
	AIR TRANSPORTATION--3.5%	
2,000,000	AMR Corp., Deb., 10.00%, 2/1/2001	2,061,540
2,100,000	Southwest Airlines, Inc., Deb., 9.40%, 7/1/2001	2,213,169
1,000,000	US Air, Inc., Pass Thru Cert., Series 1993-A2, 9.625%, 9/1/2003	840,000
	Total	5,114,709
	AUTOMOTIVE--3.9%	
500,000	Aftermarket Technology Corp., Sr. Sub. Note, 12.00%, 8/1/2004	508,750
2,000,000	Arvin Industries, Inc., Note, 6.875%, 2/15/2001	1,809,780
2,200,000	Chrysler Corp., Deb., 12.375%, 5/1/2020	2,892,846
500,000	Motor Wheel Corp., Sr. Note, Series B, 11.50%, 3/1/2000	491,250
	Total	5,702,626
	BANKING--0.4%	
500,000	First Nationwide Holdings, Inc., Sr. Note, 12.25%, 5/15/2001	521,250
	BROADCAST RADIO & TV--1.7%	
500,000	Allbritton Communications Co., Sr. Sub. Note, 11.50%, 8/15/2004	510,000
500,000	Chancellor Broadcasting Co., Sr. Sub. Note, 12.50%, 10/1/2004	500,000
1,000,000	SCI Television, Inc., Sr. Secd. Note, 11.00%, 6/30/2005	1,015,000
500,000	Sinclair Broadcast Group Inc., Sr. Sub. Note, 10.00%, 12/15/2003	482,500
	Total	2,507,500
	BUSINESS EQUIPMENT & SERVICES--0.7%	
500,000	Anacomp, Inc., Sr. Sub. Note, 15.00%, 11/1/2000	552,500
500,000	Bell & Howell Co., Sr. Sub. Note, Series B, 10.75%, 10/1/2002	482,500
	Total	1,035,000
	CABLE TELEVISION--2.2%	
$ 500,000	Cablevision Systems Corp., Sr. Sub. Deb., 9.875%, 2/15/2013	$ 462,500

</TABLE>

Federated Bond Fund
(formerly, Fortress Bond Fund)

PRINCIPAL AMOUNT		VALUE
CORPORATE BONDS--CONTINUED		
	CABLE TELEVISION--CONTINUED	
1,000,000	Continental Cablevision Inc., Sr. Deb., 9.50%, 8/1/2013	905,000
1,500,000	International Cabletel, Inc., Sr. Dfd. Coupon Note, 0/10.875%, 10/15/2003	836,250
500,000	Marcus Cable Operating Co. L.P., Sr. Deb., 11.875%, 10/1/2005	466,250
1,000,000	Rogers Cablesystems Ltd., Sr. Secd. Note, 9.65%, 1/15/2014	620,659
	Total	3,290,659
	CHEMICALS & PLASTICS--4.2%	
1,500,000	Arcadian Partners L.P., Sr. Note, Series B, 10.75%, 5/1/2005	1,473,750
500,000	Foamex Capital Corp., Sr. Sub. Deb., 11.875%, 10/1/2004	502,500
2,500,000	G-I Holdings, Inc., Sr. Disc. Note, Series B, 11.375%, 10/1/98	1,525,000
875,000	Harris Chemical North America, Inc., Sr. Secd. Disc. Note, 0/10.25%, 7/15/2001	710,938
500,000	LaRoche Industries, Inc., Sr. Sub. Note, 13.00%, 8/15/2004	478,750
500,000	Polymer Group, Inc., Sr. Note, 12.25%, 7/15/2002	500,000
1,000,000	UCC Investors Holdings, Inc., Sr. Sub. Note, 11.00%, 5/1/2003	1,010,000
	Total	6,200,938
	CLOTHING & TEXTILES--1.9%	
1,800,000	Reebok International Ltd., Deb., 9.75%, 9/15/98	1,846,548
1,000,000	Westpoint Stevens, Inc., Sr. Sub. Deb., 9.375%, 12/15/2005	902,500
	Total	2,749,048
	CONGLOMERATES--4.5%	
2,500,000	Leucadia National Corp., Sr. Sub., 10.375%, 6/15/2002	2,637,500
2,000,000	Noranda, Inc., Deb., 8.125%, 6/15/2004	1,921,520
1,000,000	Noranda, Inc., Deb., 8.625%, 7/15/2002	1,001,100
1,000,000	Sherritt Gordon Ltd., Sr. Note, 9.75%, 4/1/2003	965,000
	Total	6,525,120

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

1,000,000	U.S. Can Co., Sr. Sub. Note, 13.50%, 1/15/2002	1,115,000
	Total	2,731,385
	COSMETICS & TOILETRIES--0.8%	
2,000,000	Revlon World Wide Corp., Sr. Secd. Discount Note, Series B, 12.00% accrual, 3/15/98	1,110,000
	ECOLOGICAL SERVICES & EQUIPMENT--1.3%	
500,000	Allied Waste Industries, Inc., Sr. Sub. Note, 10.75%, 2/1/2004	465,000
1,000,000	ICF Kaiser International, Inc., Sr. Sub. Note, 12.00% 12/31/2003	880,000
500,000	Mid-American Waste Systems, Inc., Sr. Sub. Note, 12.25%, 2/15/2003	492,500
	Total	1,837,500
	FINANCE/AUTOMOTIVE--2.1%	
1,000,000	Ford Capital, Deb., 9.00%, 8/15/98	1,032,440
2,000,000	General Motors Acceptance Corp., Medium Term Note, 7.50%, 5/18/98	1,980,740
	Total	3,013,180
	FINANCIAL INTERMEDIARIES--1.7%	
500,000	Coldwell Banker Corp., Sr. Sub. Note, Series B, 10.25%, 6/30/2003	513,125
2,000,000	Merrill Lynch & Co., Inc., Medium Term Note, 7.25%, 6/14/2004	1,966,820
	Total	2,479,945
	FOOD & DRUG RETAILERS--4.0%	
1,000,000	Grand Union Co., Sr. Sub. Note, 12.25%, 7/15/2002	700,000
4,075,000	Hook-Superx, Inc., Sr. Note, 10.125%, 6/1/2002	4,217,625
1,000,000	Pathmark Stores, Inc., Sr. Sub. Note, 9.625%, 5/1/2003	888,750
	Total	5,806,375

</TABLE>

Federated Bond Fund
(formerly, Fortress Bond Fund)

<TABLE>
<CAPTION>

PRINCIPAL AMOUNT <C>	<S>	VALUE <C>
CORPORATE BONDS--CONTINUED		
	FOOD PRODUCTS--3.5%	
$ 500,000	Curtice-Burns Foods, Inc., Sr. Sub. Note, 12.75%, 2/1/2005	$ 505,000
500,000	Doskocil Cos., Inc., Sr. Sub. Note, 9.75%, 7/15/2000	437,500
2,000,000	Grand Metropolitan Investment Corp., Company Guarantee, 7.00%, 6/15/99	1,930,540
1,000,000	PMI Acquisition Corp., Sr. Sub. Note, 10.25%, 9/1/2003	972,500
3,000,000	Specialty Foods Acquisition Corp., Sr. Secd. Disc. Deb., Series B, 0/13.00%, 8/15/2005	1,305,000
	Total	5,150,540
	FOOD SERVICES--1.6%	
1,000,000	Americold Corp., First Mortgage Bond, Series B, 11.50%, 3/1/2005	900,000
500,000	Flagstar Corp., Sr. Note, 10.75%, 9/15/2001	472,500
500,000	Flagstar Corp., Sr. Note, 10.875%, 12/1/2002	471,250

500,000	Flagstar Corp., Sr. Sub. Deb., 11.25%, 11/1/2004	427,500
	Total	2,271,250
	FOREST PRODUCTS--4.5%	
500,000	Domtar, Inc., Deb., 11.25%, 9/15/2017	508,750
500,000	Domtar, Inc., Note, 12.00%, 4/15/2001	537,500
1,000,000	Georgia-Pacific Corp., Deb., 10.125%, 5/15/2000	1,019,740
2,500,000	Georgia-Pacific Corp., Deb., 9.50%, 5/15/2022	2,516,125
500,000	Riverwood International Corp., Sr. Sub. Note, 11.25%, 6/15/2002	518,750
500,000	Stone Container Corp., Sr. Note, 11.50%, 10/1/2004	505,625
1,000,000	Stone Container Corp., Sr. Note, 9.875%, 2/1/2001	943,750
	Total	6,550,240
	GOVERNMENT AGENCY--1.2%	
2,000,000	Tennessee Valley Authority, Deb., 7.85%, 6/15/2044	1,769,420

</TABLE>

Federated Bond Fund
(formerly, Fortress Bond Fund)

- --

<TABLE>
<CAPTION>

PRINCIPAL AMOUNT <C>	<S>	VALUE <C>
CORPORATE BONDS--CONTINUED		
	HEALTH SERVICES--1.3%	
$ 2,000,000	Columbia HCA Healthcare Corp., Medium Term Note, 8.05%, 8/25/2006	$ 1,904,000
	HEALTHCARE--0.8%	
1,111,175	Amerisource Corp., Sr. PIK Deb., 11.25%, 7/15/2005	1,122,287
	HOME PRODUCTS & FURNISHINGS--0.8%	
1,750,000	American Standard, Inc., Sr. Sub. Disc. Deb., 0/10.50%, 6/1/2005	1,181,250
	HOTELS, MOTELS, INNS & CASINOS--0.4%	
500,000	Motels of America, Inc., Sr. Sub. Note, 12.00%, 4/15/2004	567,500
	INDUSTRIAL PRODUCTS & EQUIPMENT--3.6%	
500,000	Truck Components, Inc., Sr. Note, Series B, 12.25%, 6/30/2001	526,250
4,435,000	Varity Corp., Sr. Note, 11.375%, 11/15/98	4,734,362
	Total	5,260,612
	INSURANCE--3.0%	
2,000,000	Delphi Financial Group Inc., Note, 8.00%, 10/1/2003	1,684,000
3,000,000	Sunamerica, Inc., Deb., 8.125%, 4/28/2023	2,664,390
	Total	4,348,390
	LEISURE & ENTERTAINMENT--0.6%	
1,000,000	Paramount Communications, Inc., Sr. Deb., 8.25%, 8/1/2022	831,640
	OIL & GAS--9.9%	
2,710,000	Ashland Oil, Inc., Deb., 11.125%, 10/15/2017	3,057,720

1,000,000	Burlington Resources, Note, 7.15%, 5/1/99	973,200
1,000,000	Falcon Drilling Co., Inc., Sr. Note, Series B, 9.75%, 1/15/2001	972,500
1,000,000	Giant Industries, Sr. Sub. Note, 9.75%, 11/15/2003	930,000
1,000,000	H.S. Resources, Inc., Sr. Sub. Note, 9.875%, 12/1/2003	942,500
1,000,000	Occidental Petroleum Corp., Sr. Deb., 11.125%, 6/1/2019	1,130,940
1,000,000	Triton Energy Corp., Sr. Sub. Disc. Note, 0/9.75%, 12/15/2000	755,000
$ 2,000,000	USX Corp., Deb., 9.125%, 1/15/2013	$ 1,919,120

</TABLE>

Federated Bond Fund
(formerly, Fortress Bond Fund)

<TABLE>
<CAPTION>

PRINCIPAL AMOUNT <C>	<S>	VALUE <C>
CORPORATE BONDS--CONTINUED		
	OIL & GAS--CONTINUED	
1,000,000	USX Corp., Note, 6.375%, 7/15/98	940,520
3,000,000	Western Atlas, Inc., Deb., 8.55%, 6/15/2024	2,827,440
	Total	14,448,940
	PRINTING & PUBLISHING--3.1%	
500,000	Affiliated Newspaper, Sr. Disc. Note, Class B, 0/13.25%, 7/1/2006	260,000
250,000	Garden State Newspapers, Inc., Sr. Sub. Note, 12.00%, 7/1/2004	248,750
1,000,000	News America Holdings, Inc., Sr. Note, 12.00%, 12/15/2001	1,132,220
3,000,000	News America Holdings, Inc., Sr. Note, 8.50%, 2/15/2005	2,881,590
	Total	4,522,560
	RETAILERS--1.4%	
1,000,000	Brylane Capital Corp., Sr. Sub. Note, Series B, 10.00%, 9/1/2003	947,500
1,000,000	J.C. Penney Co., S.F. Deb., 9.75%, 6/15/2021	1,058,850
	Total	2,006,350
	SOVEREIGN GOVERNMENT--8.8%	
2,500,000	Freeport Terminal (Malta) Ltd., Gtd. Global Note, 7.50%, 3/29/2009	2,281,475
1,400,000	New Zealand Government, Deb., 10.50%, 7/16/2000	1,498,000
1,000,000	Province of New Brunswick, Local Government Guarantee, 9.75%, 5/15/2020	1,091,100
1,500,000	Province of Quebec, Deb., 13.25%, 9/15/2014	1,854,525
2,000,000	Province of Quebec, Deb., 7.50%, 7/15/2023	1,687,020
2,000,000	Republic of Columbia, Note, 8.75%, 10/6/99	1,977,420
2,500,000	Victoria Public Authority, Local Government Guarantee, 8.25%, 1/15/2002	2,484,375
	Total	12,873,915

</TABLE>

Federated Bond Fund

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

SHARES OR PRINCIPAL AMOUNT		VALUE
CONVERTIBLE PREFERRED STOCKS--2.0%		
	BANKING--2.0%	
150,000	Citicorp., PERCS, Series 15, 8.25%	$ 2,943,750
	TOTAL CONVERTIBLE PREFERRED STOCKS (IDENTIFIED COST $2,975,000)	2,943,750
COMMON STOCKS--0.0%		
	ECOLOGICAL SERVICES & EQUIPMENT--0.0%	
4,800	(a)ICF Kaiser International, Inc., Warrants	2,400

	PRINTING & PUBLISHING--0.0%	
500	(a)Affiliated Newspaper	12,562
	TOTAL COMMON STOCKS (IDENTIFIED COST $16,831)	14,962
ASSET-BACKED SECURITIES--4.7%		
	STRUCTURED PRODUCTS--4.7%	
$ 1,000,000	Discover Card Trust 1991-B, Class B, 8.85%, 7/15/98	1,023,810
1,000,000	GE Capital Home Equity Loan 1991-1, Class B, 8.70%, 8/30/2011	988,330
1,000,000	Greentree Financial Corp., 1992-2, Class B, 9.15%, 1/15/2018	1,003,750
2,000,000	MBNA Master Credit Card Trust, 1992-2, Class A, 6.20%, 8/15/99	1,928,720
1,000,000	Merrill Lynch Mortgage Investment, Inc., 1988-H, Class B, 9.70%, 6/15/2008	1,021,880
1,000,000	Residential Funding Corp., 1993-S26, Class A10, 7.50%, 7/25/2023	843,120
	TOTAL ASSET-BACKED SECURITIES (IDENTIFIED COST $7,290,312)	6,809,610
MORTGAGE-BACKED SECURITIES--1.5%		
	GOVERNMENT AGENCY--1.5%	
2,420,238	Government National Mortgage Association, Pool 379983, 7.50%, 2/15/2024	2,246,998
	TOTAL MORTGAGE-BACKED SECURITIES (IDENTIFIED COST $2,443,684)	2,246,998

</TABLE>

Federated Bond Fund
(formerly, Fortress Bond Fund)

<TABLE>
<CAPTION>

PRINCIPAL AMOUNT		VALUE
<C>	<S>	<C>
*REPURCHASE AGREEMENT--1.1%		
$ 1,605,000	J.P. Morgan Securities, Inc., 4.82%, dated 10/31/94, due 11/1/94 (at amortized cost)	$ 1,605,000
	TOTAL INVESTMENTS (IDENTIFIED COST $150,688,962)	$ 142,830,111+

</TABLE>

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

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

(a) Non-income producing.

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

The following abbreviations are used in this portfolio:

PERCS--Preferred Equity Redeemable Preferred Stock
PIK --Payment in Kind
SF --Sinking Fund

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

Federated Bond Fund
(formerly, Fortress Bond Fund)
Statement of Assets and Liabilities

October 31, 1994

<TABLE>

<S>	<C>	<C>
ASSETS:		
Investments in securities, at value (identified and tax cost: $150,688,962)		$ 142,830,111
Cash		19,855
Receivable for investments sold		3,706,172
Interest receivable		3,546,494
Receivable for capital stock sold		699,579
Total assets		150,802,211
LIABILITIES:		
Payable for investments purchased	$ 2,487,041	
Payable for capital stock redeemed	1,299,169	
Dividends payable	623,242	
Accrued expenses and other liabilities	122,704	
Total liabilities		4,532,156
NET ASSETS for 16,110,377 shares of capital stock outstanding		$ 146,270,055
NET ASSETS CONSIST OF:		
Paid-in capital		$ 157,260,387
Net unrealized appreciation (depreciation) of investments		(7,858,851)
Accumulated net realized gain (loss) on investments		(3,335,869)
Undistributed net investment income		204,388
Total Net Assets		$ 146,270,055
NET ASSET VALUE, and Redemption Proceeds Per Share: (net assets of $146,270,055 / 16,110,377 shares of capital stock outstanding)		$9.08
COMPUTATION OF OFFERING PRICE:		
Offering Price Per Share (100/99 of $9.08)*		$9.17

</TABLE>

*See "What Shares Cost" in the prospectus.

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

Federated Bond Fund
(formerly, Fortress Bond Fund)
Statement of Operations

October 31, 1994

<TABLE>

<S>	<C>	<C>
INVESTMENT INCOME:		
Interest		$ 12,799,966
Dividends		118,106
Total investment income		12,918,072
EXPENSES:		
Investment advisory fee	$ 1,081,066	
Directors' fees	5,008	
Administrative personnel and services	192,379	
Custodian and portfolio accounting fees	66,297	

Transfer and dividend disbursing agent fees and expenses	134,126	
Shareholder services fee	350,007	
Fund share registration costs	41,758	
Auditing fees	13,508	
Legal fees	9,189	
Printing and postage	41,014	
Insurance premiums	6,784	
Taxes	40,247	
Miscellaneous	6,621	
Total expenses	1,988,004	
Deduct--Waiver of investment advisory fee	481,690	
Net expenses		1,506,314
Net investment income		11,411,758
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized gain (loss) on investment transactions (identified cost basis)		(3,358,420)
Net change in unrealized appreciation (depreciation) of investments		(13,277,162)
Net realized and unrealized gain (loss) on investments		(16,635,582)
Change in net assets resulting from operations		$ (5,223,824)

</TABLE>

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

Federated Bond Fund
(formerly, Fortress Bond Fund)
Statement of Changes in Net Assets

<TABLE>
<CAPTION>

<S>	YEAR ENDED OCTOBER 31, 1994 <C>	1993 <C>
INCREASE (DECREASE) IN NET ASSETS:		
OPERATIONS--		
Net investment income	$ 11,411,758	$ 6,888,178
Net realized gain (loss) on investment transactions ($3,359,826 net loss and $2,084,112 net gain, respectively, as computed for federal tax purposes)	(3,358,420)	2,082,462
Change in unrealized appreciation (depreciation) of investments	(13,277,162)	6,719,114
Change in net assets resulting from operations	(5,223,824)	15,689,754
NET EQUALIZATION CREDITS	81,055	116,945
DISTRIBUTIONS TO SHAREHOLDERS--		
Dividends to shareholders from net investment income	(11,262,574)	(7,005,123)
Distributions to shareholders from net realized gain on investment transactions	(1,863,673)	--
Distributions in excess of net investment income	--	(20,955)
Change in net assets from distributions to shareholders	(13,126,247)	(7,026,078)
CAPITAL STOCK TRANSACTIONS--(EXCLUSIVE OF AMOUNTS ALLOCATED TO NET INVESTMENT INCOME)		
Proceeds from sale of shares	84,985,424	84,195,992
Net asset value of shares issued to shareholders in		

payment of dividends declared	4,135,607	2,669,825
Cost of shares redeemed	(50,343,919)	(24,770,792)
Change in net assets from capital stock transactions	38,777,112	62,095,025
Change in net assets	20,508,096	70,875,646
NET ASSETS:		
Beginning of period	125,761,959	54,886,313
End of period (including undistributed net investment income of $204,388 and $0, respectively)	$ 146,270,055	$ 125,761,959

</TABLE>

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

Federated Bond Fund
(formerly, Fortress Bond Fund)
Notes to Financial Statements

October 31, 1994

(1) ORGANIZATION

Investment Series Funds, Inc. (the "Corporation") is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end, management investment company. The Corporation consists of two diversified portfolios. The financial statements included herein present only those of Federated Bond Fund (the "Fund"). The financial statements of the other portfolio are presented separately. The assets of each portfolio are segregated and a shareholder's interest is limited to the portfolio in which shares are held. Effective February 3, 1993, the Fund was registered into a portfolio of Investment Series Funds, Inc. Prior to that date, the Fund was operated as a portfolio of Investment Series Trust.

Effective June 30, 1995, the Board of Directors of the Corporation (the "Directors") changed the name of the Fund from Fortress Bond Fund to Federated Bond Fund.

(2) SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

D. FEDERAL TAXES--It is the Fund's policy to comply with the provisions of the Code applicable to regulated investment companies and to distribute to shareholders each year substantially all of its taxable income. Accordingly, no provisions for federal tax are necessary. At October 31, 1994, the Fund, for federal tax purposes, had a capital loss carryforward of $3,359,826, which will reduce the Fund's taxable income arising from future net realized gain on investments, if any, to the extent permitted by the Code, and thus will reduce the amount of the distributions to shareholders which would otherwise be necessary to relieve the Fund of any liability for federal tax. Pursuant to the Code, such capital loss carryforward will expire in 2002 ($3,359,826).

E. EQUALIZATION--The Fund follows the accounting practice known as equalization by which a portion of the proceeds from sales and costs of redemptions of capital stock equivalent, on a per share basis, to the amount of undistributed net investment income on the date of the transaction is credited or charged to undistributed net investment income. As a result, undistributed net investment income per share is unaffected by sales or redemptions of capital stock.

F. WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS--The Fund may engage in when-issued or delayed delivery transactions. The Fund records when-issued securities on the trade date and maintains security positions such that sufficient liquid assets will be available to make

payment for the securities purchased. Securities purchased on a when-issued or delayed delivery basis are marked to market daily and begin earning interest on the settlement date.

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

(3) CAPITAL STOCK

At October 31, 1994, there were 1,000,000,000,000 shares ($0.0001 par value per share) of capital stock of the Fund authorized. Transactions in capital stock were as follows:

<TABLE>
<CAPTION>

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

</TABLE>

(4) INVESTMENT ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

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

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

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

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

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

(5) INVESTMENT TRANSACTIONS

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

<TABLE>

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

</TABLE>

Report of Ernst & Young LLP,
Independent Auditors

- --

To the Directors and Shareholders of
INVESTMENT SERIES FUNDS, INC.:

We have audited the accompanying statement of assets and liabilities, including the portfolio of investments, of Federated Bond Fund (formerly, Fortress Bond Fund), (one of the portfolios comprising Investment Series Funds, Inc.) as of October 31, 1994, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended and the financial highlights (see page 2 of this prospectus) for each of the periods presented. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 1994, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Federated Bond Fund (formerly, Fortress Bond Fund) at October 31, 1994, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Pittsburgh, Pennsylvania
December 9, 1994

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APPENDIX
(UNAUDITED)

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

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

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

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

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

BB--Debt rated BB has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. The BB rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BBB rating.

B--Debt rated B has a greater vulnerability to default but currently has the capacity to meet interest payments and principal payments. Adverse business, financial, or economic conditions will likely impair capacity or willingness to pay interest and repay principal. The B rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BB or BB rating.

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

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

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

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

Ba--Bonds which are Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B--Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

FITCH INVESTORS SERVICE, INC., LONG-TERM DEBT RATINGS

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

AA--Bonds considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated AAA. Because bonds rated in the AAA and AA categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally rated F-1+.

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

BBB--Bonds considered to be investment grade and of satisfactory credit quality. The obligator'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. The likelihood that the ratings of these bonds will fall below investment grade is higher than for bonds with higher ratings.

BB--Bonds are considered speculative. The obligor's ability to pay interest and repay principal may be affected over time by adverse economic changes. However, business and financial alternatives can be identified which could assist the obligor in satisfying its debt service requirements.

B--Bonds are considered highly speculative. While bonds in this class are currently meeting debt service requirements, the probability of continued timely payment of principal and interest reflects the limited margin of safety and the need for reasonable business and economic activity throughout the life of the issue.

ADDRESSES

<TABLE>

<S>	<C>	<C>
Investment Series Fund, Inc.		
	Federated Bond Fund	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Distributor		
	Federated Securities Corp.	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Investment Adviser		
	Federated Advisers	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779
Custodian		
	State Street Bank and Trust Company	P.O. Box 8602 Boston, Massachusetts 02266-8602
Transfer Agent and Dividend Disbursing Agent		
	Federated Services Company	Federated Investors Tower Pittsburgh, Pennsylvania 15222-3779

Independent Auditors	
Ernst & Young LLP	One Oxford Center Pittsburgh, Pennsylvania 15219

</TABLE>

FEDERATED BOND FUND
(FORMERLY, FORTRESS BOND FUND)
(A PORTFOLIO OF INVESTMENT
SERIES FUNDS, INC.)
FORTRESS SHARES
PROSPECTUS
An Open-End, Diversified
Management Investment Company
Prospectus dated June 27, 1995

[logo] FEDERATED SECURITIES CORP.

Distributor
A subsidiary of FEDERATED INVESTORS

FEDERATED INVESTORS TOWER
PITTSBURGH, PENNSYLVANIA 15222-3779
Cusip 461444309
G01271-02 (6/95)

FEDERATED BOND FUND

(FORMERLY, FORTRESS BOND FUND)

(A PORTFOLIO OF INVESTMENT SERIES FUNDS, INC.)
CLASS A SHARES
CLASS B SHARES
CLASS C SHARES
FORTRESS SHARES
Combined Statement of Additional Information

This Combined Statement of Additional Information should be read with the combined prospectus for Class A Shares, Class B Shares, and Class C Shares, and the prospectus for Fortress Shares of Federated Bond Fund (the "Fund") dated June 27, 1995. This Statement is not a prospectus itself. To receive a copy of the prospectus, write or call the Fund.

FEDERATED INVESTORS TOWER
PITTSBURGH, PENNSYLVANIA 15222-3779

Statement dated June 27, 1995

FEDERATED SECURITIES CORP.
Distributor
A subsidiary of Federated
Investors

GENERAL INFORMATION ABOUT THE FUND

The Fund is a portfolio of Investment Series Funds, Inc. (the "Corporation"). The Fund was established as a portfolio of Investment Series Trust, a Massachusetts business trust, on March 17, 1987, and on February 5, 1993, was reorganized into a portfolio of the Corporation, which is organized under the laws of the State of Maryland. It is qualified to do business as a foreign corporation in Pennsylvania.

Shares of the Fund are offered in four classes known as Class A Shares, Class B Shares, Class C Shares, and Fortress Shares (individually and collectively referred to as "Shares," as the context may require). This Combined Statement of Additional Information relates to all classes of Shares of the Fund.

INVESTMENT OBJECTIVE AND POLICIES

The investment objective of the Fund is to provide as high a level of current income as is consistent with the preservation of capital. The investment objective cannot be changed without approval of shareholders.

TYPES OF INVESTMENTS

As a matter of investment policy, which may be changed without shareholder approval, the Fund will, under normal circumstances, invest at least 65% of the value of its total net assets in investment grade bonds. Permitted investments include:

- domestically-issued corporate debt obligations;
- asset-backed securities;
- obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities;
- taxable municipal debt obligations; and
- repurchase agreements.

FUTURES AND OPTIONS TRANSACTIONS

The Fund may attempt to hedge all or a portion of its portfolio by buying and selling financial futures contracts, buying put options on portfolio securities and listed put options on futures contracts, and writing call options on futures contracts. The Fund may also write covered call options on portfolio securities to attempt to increase its current income. The Fund currently does not intend to invest more than 5% of its total assets in options transactions.

Financial Futures Contracts

A futures contract is a firm commitment by two parties: the seller who agrees to make delivery of the specific type of security called for in the contract ("going short") and the buyer who agrees to take delivery of the security ("going long") at a certain time in the future.

In the fixed income securities market, price generally moves inversely to interest rates. Thus, a rise in rates generally means a drop in price. Conversely, a drop in rates generally means a rise in price. In order to hedge its holdings of fixed income securities against a rise in market interest rates, the Fund could enter into contracts to deliver securities at a predetermined price (i.e., "go short") to protect itself against the possibility that the prices of its fixed income securities may decline during the Fund's anticipated holding period. The Fund would "go long" (agree to purchase securities in the future at a predetermined price) to hedge against a decline in market interest rates.

Put Options on Financial Futures Contracts

The Fund may purchase listed put options on financial futures contracts. Unlike entering directly into a futures contract, which requires the purchaser to buy a financial instrument on a set date at a specified price, the purchase of a put option on a futures contract entitles (but does not obligate) its purchaser to decide on or before a future date whether to assume a short position at the specified price.

The Fund would purchase put options on futures contracts to protect portfolio securities against decreases in value resulting from an anticipated increase in market interest rates. Generally, if the hedged portfolio securities decrease in value during the term of an option, the related futures contracts will also decrease in value and the option will increase in value. In such an event, the Fund will normally close out its option by selling an identical option. If the hedge is successful, the proceeds received by the Fund upon the sale of the second option will be large enough to offset both the premium paid by the Fund for the original option plus the decrease in value of the hedged securities.

Alternatively, the Fund may exercise its put option. To do so, it would simultaneously enter into a futures contract of the type underlying the option (for a price less than the strike price of the option) and exercise the option. The Fund would then deliver the futures contract in return for payment of the strike price. If the Fund neither closes out nor exercises an option, the option will expire on the date provided in the option contract, and the premium paid for the contract will be lost.

Call Options on Financial Futures Contracts

In addition to purchasing put options on futures, the Fund may write listed call options on futures contracts to hedge its portfolio against an increase in market interest rates. When the Fund writes a call option on a futures contract, it is undertaking the obligation of assuming a short futures position (selling a futures contract) at the fixed strike price at any time during the life of the option if the option is exercised. As market interest rates rise, causing the prices of futures to go down, the Fund's obligation under a call option on a future (to sell a futures contract) costs less to fulfill, causing the value of the Fund's call option position to increase.

In other words, as the underlying futures price goes down below the strike price, the buyer of the option has no reason to exercise the call, so that the Fund keeps the premium received for the option. This premium can offset the drop in value of the Fund's fixed income portfolio which is occurring as interest rates rise.

Prior to the expiration of a call written by the Fund, or exercise of it by the buyer, the Fund may close out the option by buying an identical option. If the hedge is successful, the cost of the second option will be less than the premium received by the Fund for the initial option. The net premium income of the Fund will then offset the decrease in value of the hedged securities.

The Fund will not maintain open positions in futures contracts it has sold or call options it has written on futures contracts if, in the aggregate, the value of the open positions (marked to market) exceeds the current market value of its securities portfolio plus or minus the unrealized gain or loss on those open positions, adjusted for the correlation of volatility between the hedged securities and the futures contracts. If this limitation is exceeded at any time, the Fund will take prompt action to close out a sufficient number of open contracts to bring its open futures and options positions within this limitation.

"Margin" in Futures Transactions

Unlike the purchase or sale of a security, the Fund does not pay or receive money upon the purchase or sale of a futures contract. Rather, the Fund is required to deposit an amount of "initial margin" in cash or U.S. Treasury bills with its custodian (or the broker, if legally permitted). The nature of initial margin in futures transactions is different from that of margin in securities transactions in that futures contract initial margin does not involve the borrowing of funds by the Fund to finance the transactions. Initial margin is in the nature of a performance bond or good faith deposit on the contract which is returned to the Fund upon termination of the futures contract, assuming all contractual obligations have been satisfied.

A futures contract held by the Fund is valued daily at the official settlement price of the exchange on which it is traded. Each day the Fund pays or receives cash, called "variation margin," equal to the daily change in value of the futures contract. This process is known as "marking to market." Variation margin does not represent a borrowing or loan by the Fund but is instead settlement between the Fund and the broker of the amount one would owe the other if the futures contract expired. In computing its daily net asset value, the Fund will mark-to-market its open futures positions.

The Fund is also required to deposit and maintain margin when it writes call options on futures contracts.

Purchasing Put Options on Portfolio Securities

The Fund may purchase put options on portfolio securities to protect against price movements in particular securities in its portfolio. A put option gives the Fund, in return for a premium, the right to sell the underlying security to the writer (seller) as a specified price during the term of the option.

Writing Covered Call Options on Portfolio Securities

The Fund may also write covered call options to generate income. As writer of a call option, the Fund has the obligation upon exercise of the option during the option period to deliver the underlying security upon payment of the exercise price. The Fund may only sell call options either on securities held in its portfolio or on securities which it has the right to obtain without payment of further consideration (or has segregated cash in the amount of any additional consideration).

INVESTING IN FOREIGN CURRENCIES

Forward Foreign Currency Exchange Contracts

The Fund may enter into forward foreign currency exchange contracts in order to protect itself against a possible loss resulting from an adverse change in the relationship between the U.S. dollar and a foreign currency involved in an underlying transaction. However, forward foreign currency exchange contracts may limit potential gains which could result from a positive change in such currency relationships. The Fund's investment adviser, Federated Advisers (the "Adviser"), believes that it is important to have the flexibility to enter into forward foreign currency exchange contracts whenever it determines that it is in the Fund's best interest to do so. The Fund will not speculate in foreign currency exchange.

There is no limitation as to the percentage of the Fund's assets that may be committed to such contracts.

The Fund does not enter into forward foreign currency exchange contracts or maintain a net exposure in such contracts when the Fund would be obligated to deliver an amount of foreign currency in excess of the value of the Fund's portfolio securities or other assets denominated in that currency or, in the case of a "cross-hedge" denominated in a currency or currencies that the Adviser believes will tend to be closely correlated with the currency with regard to price movements. Generally, the Fund does not enter into a forward foreign currency exchange contract with a term longer than one year.

Foreign Currency Options

A foreign currency option provides the option buyer with the right to buy or sell a stated amount of foreign currency at the exercise price on a specified date or during the option period. The owner of a call option has the right, but not the obligation, to buy the currency. Conversely, the owner of a put option has the right, but not the obligation to sell the currency.

When the option is exercised, the seller (i.e., writer) of the option is obligated to fulfill the terms of the sold option. However, either the seller or the buyer may, in the secondary market, close its position during the option period at any time prior to expiration.

A call option on foreign currency generally rises in value if the underlying currency appreciates in value, and a put option on foreign currency generally falls in value if the underlying currency depreciates in value. Although purchasing a foreign currency option can protect the Fund against an adverse movement in the value of a foreign currency, the option will not limit the movement in the value of such currency. For example, if the Fund were holding securities denominated in a foreign currency that was appreciating and had purchased a foreign currency put to hedge against a decline in the value of the currency, the Fund would not have to exercise its put option. Likewise, if the Fund were to enter into a contract to purchase a security denominated in foreign currency and, in conjunction with that purchase, were to purchase a foreign currency call option to hedge against a rise in value of the currency, and if the value of the currency instead depreciated between the date of purchase and the settlement date, the Fund would not have to exercise its call. Instead, the Fund could acquire in the spot market the amount of foreign currency needed for settlement.

Special Risks Associated With Foreign Currency Options

Buyers and sellers of foreign currency options are subject to the same risks that apply to options generally.

In addition, there are certain additional risks associated with foreign currency options. The markets in foreign currency options are relatively new, and the Fund's ability to establish and close out positions on such options is subject to the maintenance of a liquid secondary market. Although the Fund will not purchase or write such options unless and until, in the opinion of the Adviser, the market for them has developed sufficiently to ensure that the risks in connection with such options are not greater than the risks in connection with the underlying currency, there can be no assurance that a liquid secondary market will exist for a particular option at any specific time.

In addition, options on foreign currencies are affected by all of those factors that influence foreign exchange rates and investments generally. The value of a foreign currency option depends upon the value of the underlying currency relative to the U.S. dollar. As a result, the price of the option position may vary with changes in the value of either or both currencies and may have no relationship to the investment merits of a foreign security. Because foreign currency transactions occurring in the interbank market involve substantially larger amounts than those that may be involved in the use of foreign currency options, investors may be disadvantaged by having to deal in an odd lot market (generally consisting of transactions of less than $1 million) for the underlying foreign currencies at prices that are less favorable than for round lots.

There is no systematic reporting of last sale information for foreign currencies or any regulatory requirement that quotations available through dealers or other market sources be firm or revised on a timely basis.

Available quotation information is generally representative of very large transactions in the interbank market and thus may not reflect relatively smaller transactions (i.e. less than $1 million) where rates may be less favorable. The interbank market in foreign currencies is a global, around-the-clock market. To the extent that the U.S. option markets are closed while the markets for the underlying currencies remain open, significant price and rate movements may take place in the underlying markets that cannot be reflected in the options markets until they reopen.

WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS

These transactions are made to secure what is considered to be an advantageous price or yield for the Fund. No fees or other expenses, other than normal transaction costs, are incurred. However, liquid assets of the Fund sufficient to make payment for the securities to be purchased are segregated on the Fund's records at the trade date. These assets are marked to market daily and are maintained until the transaction has been settled. The Fund does not intend to engage in when-issued and delayed delivery transactions to an extent that would cause the segregation of more than 20% of the total value of its assets.

LENDING OF PORTFOLIO SECURITIES

The collateral received when the Fund lends portfolio securities must be valued daily and, should the market value of the loaned securities increase, the borrower must furnish additional collateral to the Fund. During the time portfolio securities are on loan, the borrower pays the Fund any dividends or interest paid on such securities. Loans are subject to termination at the option of the Fund or the borrower. The Fund may pay reasonable administrative and custodial fees in connection with a loan and may pay a negotiated portion of the interest earned on the cash or equivalent collateral to the borrower or placing broker. The Fund does not have the right to vote securities on loan, but would terminate the loan and regain the right to vote if that were considered important with respect to the investment.

REPURCHASE AGREEMENTS

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

REVERSE REPURCHASE AGREEMENTS

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

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

PORTFOLIO TURNOVER

The Fund will not attempt to set or meet a portfolio turnover rate since any turnover would be incidental to transactions undertaken in an attempt to achieve the Fund's investment objectives. Securities in the Fund's portfolio will be sold whenever the Adviser believes it is appropriate to do so in light of the Fund's investment objective, without regard to the length of time a particular security may have been held. The Adviser does not anticipate that portfolio turnover will result in adverse tax consequences. Any such trading will increase the Fund's portfolio turnover rate and transaction costs. For the fiscal years ended October 31, 1994, and 1993, the portfolio turnover rates were 74% and 51%,, respectively.

INVESTMENT LIMITATIONS

Buying on Margin

The Fund will not purchase any securities on margin but may obtain such short-term credits as may be necessary for the clearance of transactions.

Issuing Senior Securities and Borrowing Money

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

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

Pledging Assets

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

Diversification of Investments

With respect to securities comprising 75% of the value of its total assets, the Fund will not purchase securities issued by any one issuer (other than cash, cash items or securities issued or guaranteed by the government of the United States or its agencies or instrumentalities and repurchase agreements collateralized by such securities) if as a result more than 5% of the value of its total assets would be invested in the securities of that issuer.

Investing in Real Estate

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

Investing in Commodities

The Fund will not purchase or sell commodities. However, the Fund may purchase put options on portfolio securities and on financial futures contracts. In addition, the Fund reserves the right to hedge the portfolio by entering into financial futures contracts and to sell calls on financial futures contracts. The Fund will notify shareholders before such a change in its operating policies is implemented.

Investing in Restricted Securities

The Fund will not invest more than 10% of its net assets in securities subject to restrictions on resale under the federal securities laws (except for commercial paper issued under Section 4(2) of the Securities Act of 1933).

Underwriting

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

Lending Cash or Securities

The Fund will not lend any of its assets except portfolio securities, on a short-term or long-term basis, up to one-third of the value of its total assets, to broker/dealers, banks, or other institutional borrowers of securities.

Concentration of Investments

The Fund will not invest 25% or more of the value of its total assets in any one industry. However, investing in U.S. government obligations shall not be considered investments in any one industry.

Selling Short

The Fund will not sell securities short unless:

- during the time the short position is open, it owns an equal amount of the securities sold or securities readily and freely convertible into or exchangeable, without payment of additional consideration, for securities of the same issuer as, and equal in amount to, the securities sold short; and
- not more than 10% of the Fund's net assets (taken at current value) is held as collateral for such sales at any one time.

Investing in Illiquid Securities

The Fund will not invest more than 15% of its net assets in securities which are illiquid, including repurchase agreements providing for settlement in more than seven days after notice.

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

Investing in Minerals

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

Investing in New Issuers

The Fund will not invest more than 5% of the value of its total assets in portfolio instruments of unseasoned issuers, including their predecessors, that have been in operation for less than three years.

Investing in Issuers Whose Securities Are Owned by Officers and Directors of the Corporation

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

Writing Covered Call Options and Purchasing Put Options

The Fund will not write call options on securities unless the securities are held in the Fund's portfolio or unless the Fund is entitled to them in deliverable form without further payment or after segregating cash in the amount of any further payment. The Fund will not purchase put options on securities unless the securities are held in the Fund's portfolio.

Investing in Securities of Other Investment Companies

The Fund will limit its investment in other investment companies to no more than 3% of the total outstanding voting stock of any investment company, invest no more than 5% of its total assets in any one investment company, or invest more than 10% of its total assets in investment companies in general. The Fund will limit its investments in the securities of other investment companies to those of money market funds having investment objectives and policies similar to its own. The Fund will purchase securities of closed-end investment companies only in open market transactions involving only customary broker's commissions. However, these limitations are not applicable if the securities are acquired in a merger, consolidation, reorganization or acquisition of assets. While it is the Fund's policy to waive its investment advisory fee on assets invested in securities of open-end investment companies, it should be noted that investment companies incur certain expenses such as custodian and transfer agent fees, and therefore any investment by a Fund in shares of another investment company would be subject to such duplicate expenses.

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

For purposes of its limitations, the Fund considers instruments issued by a U.S. branch of a domestic bank having capital, surplus, and undivided profits in excess of $100,000,000 at the time of investment to be "cash items."

The use of short sales will allow the Fund to retain certain bonds in its portfolio longer than it would without such sales. To the extent the Fund receives the current income produced by such bonds for a longer period than it might otherwise, the Fund's investment objective of current income is furthered.

The Fund did not borrow money, sell securities short, engage in foreign currency options, or purchase financial futures contracts in excess of 5% of the value of its net assets during the last fiscal year and has no present intent to do so in the coming fiscal year.

Investment Series Funds, Inc. Management

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

John F. Donahue@*
Federated Investors Tower
Pittsburgh, Pennsylvania
Birthdate: July 28, 1924
Chairman and Director
Chairman and Trustee, Federated Investors, Federated Advisers, Federated Management, and Federated Research; Chairman and Director, Federated Research Corp.; Chairman, Passport Research, Ltd.; Director, AEtna Life and Casualty Company; Chief Executive Officer and Director, Trustee, or Managing General Partner of the Funds. Mr. Donahue is the father of J. Christopher Donahue, President and Director of the Fund.

John T. Conroy, Jr.
Wood/IPC Commercial Department
John R. Wood and Associates, Inc., Realtors
3255 Tamiami Trail North
Naples, Florida
Birthdate: June 23, 1937
Director
President, Investment Properties Corporation; Senior Vice-President, John R. Wood and Associates, Inc., Realtors; President, Northgate Village Development Corporation; Partner or Trustee in private real estate ventures in Southwest Florida; Director, Trustee, or Managing General Partner of the Funds; formerly, President, Naples Property Management, Inc.

William J. Copeland
One PNC Plaza - 23rd Floor
Pittsburgh, Pennsylvania
Birthdate: July 4, 1918
Director

Director and Member of the Executive Committee, Michael Baker, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Vice Chairman and Director, PNC Bank, N.A., and PNC Bank Corp. and Director, Ryan Homes, Inc.

J. Christopher Donahue *
Federated Investors Tower
Pittsburgh, Pennsylvania
Birthdate: April 11, 1949
President and Director
President and Trustee, Federated Investors, Federated Advisers, Federated Management, and Federated Research; President and Director, Federated Research Corp.; President, Passport Research, Ltd.; Trustee, Federated Administrative Services, Federated Services Company, and Federated Shareholder Services; President or Vice President of the Funds; Director, Trustee, or Managing General Partner of some of the Funds. Mr. Donahue is the son of John F. Donahue, Chairman and Director of the Fund.

James E. Dowd
571 Hayward Mill Road
Concord, Massachusetts
Birthdate: May 18, 1922
Director
Attorney-at-law; Director, The Emerging Germany Fund, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Director, Blue Cross of Massachusetts, Inc.

Lawrence D. Ellis, M.D.
3471 Fifth Avenue, Suite 1111
Pittsburgh, Pennsylvania
Birthdate: October 11, 1932
Director
Professor of Medicine and Member, Board of Trustees, University of Pittsburgh; Medical Director, University of Pittsburgh Medical Center - Downtown; Member, Board of Directors, University of Pittsburgh Medical Center; formerly, Hematologist, Oncologist, and Internist, Presbyterian and Montefiore Hospitals; Director, Trustee, or Managing General Partner of the Funds.

Edward L. Flaherty, Jr.@
Henny, Kochuba, Meyer and Flaherty
Two Gateway Center - Suite 674
Pittsburgh, Pennsylvania
Birthdate: June 18, 1924
Director
Attorney-at-law; Partner, Henny, Kochuba, Meyer and Flaherty; Director, Eat'N Park Restaurants, Inc., and Statewide Settlement Agency, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Counsel, Horizon Financial, F.A., Western Region.

Peter E. Madden
225 Franklin Street
Boston, Massachusetts
Birthdate: April 16, 1942
Director
Consultant; State Representative, Commonwealth of Massachusetts; Director, Trustee, or Managing General Partner of the Funds; formerly, President, State Street Bank and Trust Company and State Street Boston Corporation and Trustee, Lahey Clinic Foundation, Inc.

Gregor F. Meyer
Henny, Kochuba, Meyer and Flaherty
Two Gateway Center - Suite 674
Pittsburgh, Pennsylvania
Birthdate: October 6, 1926
Director
Attorney-at-law; Partner, Henny, Kochuba, Meyer and Flaherty; Chairman, Meritcare, Inc.; Director, Eat'N Park Restaurants, Inc.; Director, Trustee, or Managing General Partner of the Funds; formerly, Vice Chairman, Horizon Financial, F.A.

John E. Murray, Jr., J.D., S.J.D.
President, Duquesne University
Pittsburgh, Pennsylvania
Birthdate: December 20, 1932
Director
President, Law Professor, Duquesne University; Consulting Partner, Mollica, Murray and Hogue; Director, Trustee or Managing General Partner of the Funds.

Wesley W. Posvar
1202 Cathedral of Learning
University of Pittsburgh
Pittsburgh, Pennsylvania
Birthdate: September 14, 1925
Director

Professor, Foreign Policy and Management Consultant; Trustee, Carnegie Endowment for International Peace, RAND Corporation, Online Computer Library Center, Inc., and U.S. Space Foundation; Chairman, Czecho Slovak Management Center; Director, Trustee, or Managing General Partner of the Funds; President Emeritus, University of Pittsburgh; formerly, Chairman, National Advisory Council for Environmental Policy and Technology.

Marjorie P. Smuts
4905 Bayard Street
Pittsburgh, Pennsylvania
Birthdate: July 21, 1935
Director
Public relations/marketing consultant; Director, Trustee, or Managing General Partner of the Funds.

Richard B. Fisher
Federated Investors Tower
Pittsburgh, Pennsylvania
Birthdate: May 17, 1923
Vice President
Executive Vice President and Trustee, Federated Investors; Director, Federated Research Corp.; Chairman and Director, Federated Securities Corp.; President or Vice President of some of the Funds; Director or Trustee of some of the Funds.

Edward C. Gonzales
Federated Investors Tower
Pittsburgh, Pennsylvania
Birthdate: October 22, 1930
Vice President and Treasurer
Vice President, Treasurer, and Trustee, Federated Investors; Vice President and Treasurer, Federated Advisers, Federated Management, Federated Research, Federated Research Corp., and Passport Research, Ltd.; Executive Vice President, Treasurer, and Director, Federated Securities Corp.; Trustee, Federated Services Company and Federated Shareholder Services; Chairman, Treasurer, and Trustee, Federated Administrative Services; Trustee or Director of some of the Funds; Vice President and Treasurer of the Funds.

John W. McGonigle
Federated Investors Tower
Pittsburgh, Pennsylvania
Birthdate: October 26, 1938
Vice President and Secretary
Services;
Services; Executive Vice President and Director, Federated Securities Corp.; Vice President and Secretary of the Funds.

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

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

Officers and Directors own less than 1% of the Fund's outstanding Shares.
As used in the table above, "The Funds" and "Funds" mean the following investment companies: American Leaders Fund, Inc.; Annuity Management Series; Arrow Funds; Automated Cash Management Trust; Automated Government Money Trust; California Municipal Cash Trust; Cash Trust Series II; Cash Trust Series, Inc.; DG Investor Series; Edward D. Jones & Co. Daily Passport Cash Trust; Federated ARMs Fund; Federated Exchange Fund, Ltd.; Federated GNMA Trust; Federated Government Trust; Federated Growth Trust; Federated High Yield Trust; Federated Income Securities Trust; Federated Income Trust; Federated Index Trust; Federated Institutional Trust; Federated Intermediate Government Trust; Federated Master Trust; Federated Municipal Trust; Federated Short-Intermediate Government Trust; Federated Short-Term U.S. Government Trust; Federated Stock Trust; Federated Tax-Free Trust; Federated U.S. Government Bond Fund; First Priority Funds; Fixed Income Securities, Inc.; Fortress Adjustable Rate U.S. Government Fund, Inc.; Fortress Municipal Income Fund, Inc.; Fortress Utility Fund, Inc.; Fund for U.S. Government Securities, Inc.; Government Income Securities, Inc.; High Yield Cash Trust; Insight Institutional Series, Inc.; Insurance Management Series; Intermediate Municipal Trust; International Series, Inc.; Investment Series Funds, Inc.; Investment Series Trust; Liberty Equity Income Fund, Inc.; Liberty High Income Bond Fund, Inc.; Liberty Municipal Securities Fund, Inc.; Liberty U.S. Government Money Market Trust; Liberty Term Trust, Inc. - 1999; Liberty Utility Fund, Inc.; Liquid Cash Trust; Managed Series Trust; Money Market Management, Inc.; Money Market Obligations Trust; Money Market Trust; Municipal Securities Income Trust; Newpoint Funds; New York Municipal Cash Trust; 111 Corcoran Funds; Peachtree Funds; The Planters Funds; RIMCO Monument Funds; The Shawmut Funds; Short-Term Municipal Trust; Star Funds; The Starburst Funds; The Starburst Funds II; Stock and Bond Fund, Inc.; Sunburst Funds; Targeted Duration Trust; Tax-Free Instruments Trust; Trademark Funds; Trust for Financial Institutions; Trust For Government Cash Reserves; Trust for Short-Term U.S. Government Securities; Trust for U.S. Treasury

Obligations; The Virtus Funds; and World Investment Series, Inc.

Fund Ownership

As of June 22, 1995, the following shareholders of record owned 5% or more of the outstanding Fortress Shares of the Fund: Merrill Lynch Pierce Fenner & Smith, Jacksonville, Florida, owned approximately 4,625,052 Shares (25.60%).

DIRECTORS' COMPENSATION

NAME , POSITION WITH FUND	AGGREGATE COMPENSATION FROM FUND *	TOTAL COMPENSATION PAID FROM FUND COMPLEX +
John F. Donahue, Chairman and Director	$ 0	$0 for the Fund and 68 other investment companies in the Fund Complex
John T. Conroy, Jr., Director	$617	$117,202 for the Fund and 64 other investment companies in the Fund Complex
William J. Copeland, Director	$617	$117,202 for the Fund and 64 other investment companies in the Fund Complex
J. Christopher Donahue, Vice President and Director	$0	$0 for the Fund and 14 other investment companies in the Fund Complex
James E. Dowd, Director	$617	$117,202 for the Fund and 64 other investment companies in the Fund Complex
Lawrence D. Ellis, M.D., Director	$559	$106,460 for the Fund and 64 other investment companies in the Fund Complex
Edward L. Flaherty, Jr., Director	$617	$117,202 for the Fund and 64 other investment companies in the Fund Complex
Peter E. Madden, Director	$559	$90,563 for the Fund and 64 other investment companies in the Fund Complex
Gregor F. Meyer, Director	$559	$106,460 for the Fund and 64 other investment companies in the Fund Complex
John E. Murray, Jr., Director	$0	$0 for the Fund and 64 other investment companies in the Fund Complex
Wesley W. Posvar, Director	$559	$106,460 for the Fund and 64 other investment companies in the Fund Complex
Marjorie P. Smuts, Director	$559	$106,460 for the Fund and 64 other investment companies in the Fund Complex

*Information is furnished for the fiscal year ended October 31, 1994.
+The information is provided for the last calendar year.

INVESTMENT ADVISORY SERVICES

ADVISER TO THE FUND

The Fund's investment adviser is Federated Advisers. It is a subsidiary of Federated Investors. All of the voting securities of Federated Investors are owned by a trust, the trustees of which are John F. Donahue, his wife, and his son, J. Christopher Donahue.

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

ADVISORY FEES

For its advisory services, Federated Advisers receives an annual investment advisory fee for the Fund as described in the prospectus. For the fiscal years ended October 31, 1994, and 1993, and the period from January 1, 1992 to October 31, 1992, the Adviser earned $1,081,066, $671,751 and $113,009, respectively, of which $481,690, $548,973, and $113,009 were voluntarily waived because of undertakings to limit the Fund's expenses. In addition, for the fiscal year ended October 31, 1994, and 1993, and for the period from January 1, 1992 to October 31, 1992, the Adviser voluntarily reimbursed, with respect to this Fund, $0, $0, and $200,470, respectively.

State Expense Limitations

The Adviser has undertaken to comply with the expense limitations established by certain states for investment companies whose shares are registered for sale in those states. If the Fund's normal operating expenses (including the investment advisory fee, but not including brokerage commissions, interest, taxes, and extraordinary expenses) exceed 2 1/2% per year of the first $30 million of average net assets, 2% per year of the next $70 million of average net assets, and 1 1/2% per year of the remaining average net assets, the Adviser will reimburse the Fund for its expenses over the limitation.

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

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

ADMINISTRATIVE SERVICES

Federated Administrative Services, a subsidiary of Federated Investors, provides administrative personnel and services to the Fund for a fee as described in the prospectus. Prior to March 1, 1994, Federated Administrative Services, Inc., also a subsidiary of Federated Investors, served as the Fund's administrator. (For purposes of this Statement of Additional Information, Federated Administrative Services and Federated Administrative Services, Inc., may hereinafter collectively be referred to as, the "Administrators"). For the fiscal year ended October 31, 1994, the Administrators collectively earned $192,379. For the fiscal year ended October 31, 1993, and the period from January 1, 1992 to October 31, 1992, Federated Administrative Services, Inc. earned $288,504 and $131,503, respectively. Dr. Henry J. Gailliot, an officer of Federated Advisers, the Adviser to the Fund, holds approximately 20% of the outstanding common stock and serves as a director of Commercial Data Services, Inc., a company which provides computer processing services to Federated Administrative Services.

TRANSFER AGENT AND DIVIDEND DISBURSING AGENT

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

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

BROKERAGE TRANSACTIONS

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

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

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

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

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

PURCHASING SHARES

Except under certain circumstances described in the prospectus, shares are sold at their net asset value plus a sales load on days the New York Stock Exchange is open for business. The procedure for purchasing shares of the Fund is explained in the prospectus under "Investing in the Fund."

DISTRIBUTION PLAN AND SHAREHOLDER SERVICES AGREEMENT

These arrangements permit the payment of fees to financial institutions, the distributor, and Federated Shareholder Services, to stimulate distribution activities and to cause services to be provided to shareholders by a representative who has knowledge of the shareholder's particular circumstances and goals. These activities and services may include, but are not limited to, marketing efforts; providing office space, equipment, telephone facilities, and various clerical, supervisory, computer, and other personnel as necessary or beneficial to establish and maintain shareholder accounts and records; processing purchase and redemption transactions and automatic investments of client account cash balances; answering routine client inquiries; and assisting clients in changing dividend options, account designations, and addresses.

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

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

For the fiscal year ended October 31, 1994, the Fund paid shareholder service fees in the amount of $350,007.

PURCHASES BY SALES REPRESENTATIVES, DIRECTORS, AND EMPLOYEES

Directors, employees, and sales representatives of the Fund, Federated Advisers, and Federated Securities Corp., or their affiliates, or any investment dealer who has a sales agreement with Federated Securities Corp., their spouses and their children under 21, may buy shares at net asset value without a sales load. Shares may also be sold without a sales load to trusts or pension or profit-sharing plans for these persons.

These sales are made with the purchaser's written assurance that the purchase is for investment purposes and that the securities will not be resold except through redemption by the Fund.

CONVERSION TO FEDERAL FUNDS

It is the Fund's policy to be as fully invested as possible so that maximum interest may be earned. To this end, all payments from shareholders must be in federal funds or be converted into federal funds before shareholders begin to earn dividends. State Street Bank and Trust Company acts as the shareholder's agent in depositing checks and converting them to federal funds.

OTHER PAYMENTS TO FINANCIAL INSTITUTIONS (FORTRESS SHARES ONLY)

The administrative services for which the Distributor will pay financial institutions include, but are not limited to, providing office space, equipment, telephone facilities, and various clerical, supervisory and computer personnel, as is necessary or beneficial to establish and maintain shareholders' accounts and records, process purchase and redemption transactions, process automatic investments of client account cash balances, answer routine client inquiries regarding the Fund, assist clients in changing dividend options, account designations, addresses, and providing such other services as the Fund may reasonably request.

DETERMINING NET ASSET VALUE

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

DETERMINING MARKET VALUE OF SECURITIES

Market values of the Fund's portfolio securities are determined as follows:

- according to the last sale price on a national securities exchange, if available;
- in the absence of recorded sales for equity securities, according to the mean between the last closing bid and asked prices, and for bonds and other fixed income securities as determined by an independent pricing service;
- for short-term obligations, according to the mean bid and asked prices, as furnished by an independent pricing service, or for short-term obligations with remaining maturities of less than 60 days at the time of purchase, at amortized cost unless the Board determines this is not fair value; or
- at fair value as determined in good faith by the Fund's Board of Directors.

Prices provided by independent pricing services may be determined without relying exclusively on quoted prices. Pricing services may consider:

- yield;
- quality;
- coupon rate;
- maturity;
- type of issue;
- trading characteristics; and
- other market data.

Over-the-counter put options will be valued at the mean between the bid and the asked prices.

REDEEMING SHARES

The Fund redeems Shares at the next computed net asset value after the Fund receives the redemption request. Shareholder redemptions of Class B Shares, Class C Shares, and Fortress Shares may be subject to a contingent deferred sales charge. Redemption procedures are explained in the respective prospectuses under "Redeeming Class A Shares," "Redeeming Class B Shares," "Redeeming Class C Shares" or "Redeeming Fortress Shares." Although the transfer agent does not charge for telephone redemptions, it reserves the right to charge a fee for the cost of wire-transferred redemptions of less than $5,000.

Fortress Shares redeemed within one to four years of purchase may be subject to a contingent deferred sales charge. The amount of the contingent deferred sales charge is based upon the amount of the advance payment paid at the time of purchase by the distributor to the financial institutions for services rendered, and the length of time the investor remains a shareholder in the Fund. Should financial institutions elect to receive an amount less than the advance payment that is stated in the prospectus for servicing a particular shareholder, the contingent deferred sales charge and/or holding period for that particular shareholder will be reduced accordingly.

REDEMPTION IN KIND

The Trust is obligated to redeem shares solely in cash up to $250,000 or 1% of the respective Fund's net asset value, whichever is less, for any one shareholder within a 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 that net asset value is determined. The portfolio instruments will be selected in a manner that the Trustees deem fair and equitable.
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 transaction costs.

EXCHANGE PRIVILEGE (FORTRESS SHARES ONLY)
This section relates only to Fortress Shares of the Fund. For information regarding the Exchange Privilege for Class A Shares, Class B Shares, and Class C Shares of the Fund, please see the respective prospectuses for these classes of Shares.
The Securities and Exchange Commission (the "SEC") has issued an order exempting the Corporation from certain provisions of the Investment Company Act of 1940, as amended. As a result, Fund shareholders are allowed to exchange all or some of their shares for shares in other Fortress Funds or certain Federated Funds which are sold with a sales load that differs from that of the Fund's or which impose no sales load so long as the Federated Funds are advised by subsidiaries or affiliates of Federated Investors. These exchanges are made at net asset value plus the difference between the Fund's sales load already paid and any sales load of the fund into which the shares are to be exchanged, if higher. The order also allows certain other funds, including funds that are not advised by subsidiaries or affiliates of Federated Investors, which do not have a sales load, to exchange their shares for Fund shares on a basis other than their current offering price. These exchanges may be made to the extent that such shares were acquired in a prior exchange, at net asset value, for shares of a Federated Fund carrying a sales load.
REDUCED SALES LOAD
If a shareholder making such an exchange qualifies for a reduction or elimination of the sales load, the shareholder must notify Federated Securities Corp. or Federated Services Company in writing.
REQUIREMENTS FOR EXCHANGE
Shareholders using this privilege must exchange shares having a net asset value equal to the minimum investment requirements of the fund into which the exchange is being made. Before the exchange, the shareholder must receive a prospectus of the fund for which the exchange is being made.
This privilege is available to shareholders residing in any state in which the fund shares being acquired may be sold. Upon receipt of proper instructions and required supporting documents, Fortress Shares submitted for exchange are redeemed and the proceeds invested in shares of the other fund.
Further information on the exchange privilege and prospectuses for Fortress Funds or certain of the Funds are available by calling the Fund.
TAX CONSEQUENCES
Exercise of this exchange privilege is treated as a sale for federal income tax purposes. Depending upon the circumstances, a short or long-term capital gain or loss may be realized.
MAKING AN EXCHANGE
Instructions for exchanges for Fortress Funds or certain of the Funds must be given in writing by the shareholder. Written instructions may require a signature guarantee.
REDEEMING SHARES
The Fund redeems Shares at the next computed net asset value after the Fund receives the redemption request. Shareholder redemptions of Class B Shares, Class C Shares, and Fortress Shares may be subject to a contingent deferred sales charge. Redemption procedures are explained in the respective prospectuses under "Redeeming Class A Shares," "Redeeming Class B Shares," "Redeeming Class C Shares" or "Redeeming Fortress Shares." Although the transfer agent does not charge for telephone redemptions, it reserves the right to charge a fee for the cost of wire-transferred redemptions of less than $5,000.
Fortress Shares redeemed within one to four years of purchase may be subject to a contingent deferred sales charge. The amount of the contingent deferred sales charge is based upon the amount of the advance payment paid at the time of purchase by the distributor to the financial institutions for services rendered, and the length of time the investor remains a shareholder in the Fund. Should financial institutions elect to receive an amount less than the advance payment that is stated in the prospectus for servicing a particular shareholder, the contingent deferred sales charge and/or holding period for that particular shareholder will be reduced accordingly.
TAX STATUS
THE FUND'S TAX STATUS
The Fund will pay no federal income tax because it expects to meet the requirements of Subchapter M of the Internal Revenue Code, as amended, applicable to regulated investment companies and to receive the special tax treatment afforded to such companies. To qualify for this treatment, the Fund

must, among other requirements:

- o derive at least 90% of its gross income from dividends, interest, and gains from the sale of securities;
- o derive less than 30% of its gross income from the sale of securities held less than three months;
- o invest in securities within certain statutory limits; and
- o distribute to its shareholders at least 90% of its net income earned during the year.

SHAREHOLDERS' TAX STATUS

Shareholders are subject to federal income tax on dividends and capital gains received as cash or additional shares. No portion of any income dividend paid by the Fund is eligible for the dividends received deduction available to corporations. These dividends, and any short-term capital gains, are taxable as ordinary income.

Capital Gains

Shareholders will pay federal tax at capital gains rates on long-term capital gains distributed to them regardless of how long they have held the Fund shares.

TOTAL RETURN

Fortress Shares' average annual total returns for the one-year and five-year periods ended October 31, 1994, and for the period from July 8, 1988 (effective date of the Fund's registration statement) to October 31, 1994, were (5.28%), 10.69%, and 9.29%, respectively.

Class A Shares, Class B Shares, and Class C Shares were created on June 27, 1995, and therefore do not have average annual total returns.

The average annual total return for all classes of Shares of the Fund is the average compounded rate of return for a given period that would equate a $1,000 initial investment to the ending redeemable value of that investment. The ending redeemable value is computed by multiplying the number of Shares owned at the end of the period by the offering price per Share at the end of the period. The number of Shares owned at the end of the period is based on the number of Shares purchased at the beginning of the period with $1,000, less any applicable sales load, adjusted over the period by any additional Shares, assuming a quarterly reinvestment of all dividends and distributions. Any applicable contingent deferred sales charge is deducted from the ending value of the investments based on the lesser of the original purchase price or the offering price of Shares redeemed.

Cumulative total return reflects total performance over a specific period of time. Total return assumes and is reduced by the payment of the maximum sales load and contingent deferred sales charge, if applicable.

YIELD

Fortress Shares' yield for the thirty-day period ended October 31, 1994, was 8.69%. Class A Shares, Class B Shares, and Class C Shares were created on June 27, 1995, and therefore do not have yield figures.

The yield for all classes of Shares of the Fund is determined each day by dividing the net investment income per share (as defined by the SEC) earned by the Fund over a thirty-day period by the maximum offering price per share of the Fund on the last day of the period. This value is then annualized using semi-annual compounding. This means that the amount of income generated during the thirty-day period is assumed to be generated each month over a 12-month period and is reinvested every six months. The yield does not necessarily reflect income actually earned by the Fund because of certain adjustments required by the SEC and, therefore, may not correlate to the dividends or other distributions paid to shareholders. To the extent that financial institutions and broker/dealers charge fees in connection with services provided in conjunction with an investment in the Fund, performance will be reduced for those shareholders paying those fees.

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

PERFORMANCE COMPARISONS

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

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

The Fund's performance fluctuates on a daily basis largely because net earnings and offering price per Share fluctuate daily. Both net earnings and offering price per share are factors in the computation of yield and total return.

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

- o LEHMAN BROTHERS GOVERNMENT/CORPORATE (TOTAL) INDEX is comprised of approximately 5,000 issues which include: non-convertible bonds publicly issued by the U.S. government or its agencies; corporate bonds guaranteed by the U.S. government and quasi-federal corporations; and publicly issued, fixed rate, non-convertible domestic bonds of companies in industry, public utilities, and finance. The average maturity of these bonds approximates nine years. Tracked by Lehman Brothers, Inc., the index calculates total returns for one-month, three-month, twelve-month, and ten-year periods and year-to-date.

- o SALOMON BROTHERS AAA-AA CORPORATES INDEX calculates total returns of approximately 775 issues which include long-term, high grade domestic corporate taxable bonds, rated AAA-AA with maturities of twelve years or more and companies in industry, public utilities, and finance.
- o MERRILL LYNCH CORPORATE & GOVERNMENT MASTER INDEX is an unmanaged index comprised of approximately 4,821 issues which include corporate debt obligations rated BBB or better and publicly issued, non-convertible domestic debt of the U.S. government or any agency thereof. These quality parameters are based on composites of ratings assigned by Standard and Poor's Ratings Group and Moody's Investors Service, Inc. Only notes and bonds with a minimum maturity of one year are included.
- o MERRILL LYNCH CORPORATE MASTER is an unmanaged index comprised of approximately 4,356 corporate debt obligations rated BBB or better. These quality parameters are based on composites of ratings assigned by Standard and Poor's Corporation and Moody's Investors Service, Inc. Only bonds with a minimum maturity of one year are included.
- o 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 offering price over a specific period of time. From time to time, the Fund will quote its Lipper ranking in advertising and sales literature.
- o THE LEHMAN BROTHERS CORPORATE BOND INDEX is comprised of a large universe of bonds issued by industrial, utility and financial companies which have a minimum rating of Baa by Moody's Investors Service, Inc., BBB by Standard and Poor's Ratings Group or, in the case of bank bonds not rated by either of the previously mentioned services, BBB by Fitch Investors Service, Inc.
- o 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 any class of Shares may quote total returns which are calculated on nonstandardized base periods. These total returns also represent the historic change in the value of an investment in any class of Shares based on quarterly reinvestment of dividends over a specified period of time.

From time to time, the Fund may advertise the performance of any class of Shares using charts, graphs, and descriptions, compared to federally insured bank products, including certificates of deposit and time deposits, and to money market funds using the Lipper Analytical Services money market instruments average. In addition, advertising and sales literature for the Fund may use charts and graphs to illustrate the principals of dollar-cost averaging and may disclose the amount of dividends paid by the Fund over certain periods of time.

Advertisements may quote performance information which does not reflect the effect of a sales load or contingent deferred sales charge, as applicable.

DURATION

Duration is a commonly used measure of the potential volatility in the price of a bond, or other fixed income security, or in a portfolio of fixed income securities, prior to maturity. Volatility is the magnitude of the change in the price of a bond relative to a given change in the market rate of interest. A bond's price volatility depends on three primary variables: the bond's coupon rate; maturity date; and the level of market yields of similar fixed income securities. Generally, bonds with lower coupons or longer maturities will be more volatile than bonds with higher coupons or shorter maturities. Duration combines these variables into a single measure.

Duration is calculated by dividing the sum of the time-weighted values of the cash flows of a bond or bonds, including interest and principal payments, by the sum of the present values of the cash flows. When the Fund invests in mortgage pass-through securities, its duration will be calculated in a manner which requires assumptions to be made regarding future principal prepayments. A more complete description of this calculation is available upon request from the Fund.

APPENDIX

STANDARD AND POOR'S RATINGS GROUP CORPORATE BOND RATINGS

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

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

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

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

BB--Debt rated BB has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. The BB rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BBB- rating.

B--Debt rated B has a greater vulnerability to default but currently has the capacity to meet interest payments and principal payments. Adverse business, financial, or economic conditions will likely impair capacity or willingness to pay interest and repay principal. The B rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BB or BB rating.

CCC--Debt rated CCC has a currently identifiable vulnerability to default and is dependent upon favorable business, financial, and economic conditions to meet timely payment of interest and repayment of principal.

CC--The rating CC typically is applied to debt subordinated to senior debt that is assigned an actual or implied CCC debt rating.

C--The rating C typically is applied to debt subordinated to senior debt which is assigned an actual or implied CCC- debt rating. The C rating may be used to cover a situation where a bankruptcy petition has been filed but debt service payments are continued.

CI--The rating CI is reserved for income bonds on which no interest is being paid.

D--Debt rated D is in payment default. The D rating category is used when interest payments or principal payments are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition if debt service payments are jeopardized.

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

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

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

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

BA--Bonds which are Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B--Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

CAA--Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

CA--Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C--Bonds which are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

FITCH INVESTORS SERVICE, INC., LONG-TERM DEBT RATINGS

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

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

developments, short-term debt of these issuers is generally rated F-1+.
A--Bonds considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.
BBB--Bonds considered to be investment grade and of satisfactory credit quality. The obligator'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. The likelihood that the ratings of these bonds will fall below investment grade is higher than for bonds with higher ratings.
BB--Bonds are considered speculative. The obligor's ability to pay interest and repay principal may be affected over time by adverse economic changes. However, business and financial alternatives can be identified which could assist the obligor in satisfying its debt service requirements.
B--Bonds are considered highly speculative. While bonds in this class are currently meeting debt service requirements, the probability of continued timely payment of principal and interest reflects the limited margin of safety and the need for reasonable business and economic activity throughout the life of the issue.
CCC--Bonds have certain identifiable characteristics which, if not remedied, may lead to default. The ability to meet obligations requires an advantageous business and economic environment.
CC--Bonds are minimally protected. Default in payment of interest and/or principal seems probable over time.
C--Bonds are in imminent default in payment of interest or principal.
DDD, DD, AND D--Bonds are in default on interest and/or principal payments. Such bonds are extremely speculative and should be valued on the basis of their ultimate recovery value in liquidation or reorganization of the obligor. DDD represents the highest potential for recovery on these bonds, and D represents the lowest potential for recovery.

STANDARD AND POOR'S RATINGS GROUP COMMERCIAL PAPER RATINGS

A-1--This designation indicates that the degree of safety regarding timely payment is either overwhelming or very strong. Those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign designation.
A-2--Capacity for timely payment on issues with this designation is strong. However, the relative degree of safety is not as high as for issues designated A-1.

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

P-1--Issuers rated PRIME-1 (or related supporting institutions) have a superior capacity for repayment of short-term promissory obligations. Prime-1 repayment capacity will normally be evidenced by the following characteristics: 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; and well-established access to a range of financial markets and assured sources of alternate liquidity.
P-2--Issuers rated PRIME-2 (or related supporting institutions) have a strong capacity for repayment of short-term promissory obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, will be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

FITCH INVESTORS SERVICE, INC., SHORT-TERM DEBT RATINGS

F-1+--Exceptionally Strong Credit Quality. Issues assigned this rating are regarded as having the strongest degree of assurance for timely payment.
F-1--Very Strong Credit Quality. Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than issues rated F-1+.
F-2--Good Credit Quality. Issues carrying this rating have a satisfactory degree of assurance for timely payment.

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