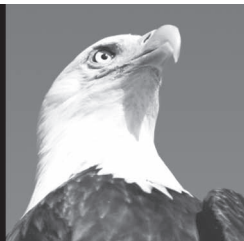


**Federated®**



# FEDERATED KAUFMANN FUND

Fund Established 2001

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**A Portfolio of Federated Equity Funds**

## **PORTFOLIO MANAGER REVIEW AND SEMI-ANNUAL SHAREHOLDER REPORT**

April 30, 2011

**Class R Shares (formerly Class K Shares)**

**Not FDIC Insured ■ May Lose Value ■ No Bank Guarantee**

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**Lawrence E. Auriana**  
*Portfolio Co-Manager*



**Hans P. Utsch**  
*Portfolio Co-Manager*

## Portfolio Manager Review

Dear Valued Shareholder:

Enclosed is the Semi-Annual Shareholder Report for Federated Kaufmann Fund Class R Shares. This report covers the six-month reporting period from November 1, 2010 through April 30, 2011. Please review the complete listing of the fund's holdings, financial statements and other information in the enclosed report, as well as the commentary in this letter.

The fund pursues capital appreciation primarily by investing in stocks of small-<sup>1</sup> and mid-sized growth-oriented companies.

Overall, the six-month period – which was a tale of two halves – was highly positive for equities. Mid-cap and small-cap stocks both outperformed large-cap stocks. Within the small- and mid-cap universe, growth stocks outperformed value stocks. On the economic front, growth picked up late in 2010 after a summer lull, aided by stronger consumer spending, expanding manufacturing activity, rising exports, a surge in business investment in equipment and software and robust corporate profits. But rising agricultural commodity prices, severe winter storms, the tragedy in Japan and a spike in oil and gas prices to near three-year highs combined to slow the expansion as the winter turned to spring. Fed Chairman Bernanke and many private economists said they believe the factors contributing to the slowdown late in the period will prove transitory and that the pace of growth will pick up in coming months. However, other growth-inhibiting headwinds – including a continuation of high oil prices and a still-struggling housing industry – remained in place.

1 *Small company stocks may be less liquid and subject to greater price volatility than large capitalization stocks.*

**Performance data quoted represents past performance which is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Mutual fund performance changes over time and current performance may be lower or higher than what is stated. For current to the most recent month-end performance and after-tax returns, visit [FederatedInvestors.com](http://FederatedInvestors.com) or call 1-800-341-7400.**

The fund's Class R Shares returned 12.45% at net asset value (NAV) for the six-month period.

| <b>Share Class</b>          | <b>Redemption Charge</b> | <b>Total Return at Offering Price</b> | <b>Total Return at Net Asset Value</b> |
|-----------------------------|--------------------------|---------------------------------------|--|
| Class R Shares <sup>2</sup> | 0.20%                    | 12.23%                                | 12.45%                                 |

At the end of the reporting period, approximately 75% of the portfolio remained invested across four major sectors – health care, financials, industrials and information technology – that have historically provided strong opportunities for bottom-up growth investors. We continue to seek attractive investment opportunities – companies that are dominant competitors and that have strengthening fundamentals delivering both near-term and long-term growth in sales and earnings. We believe that such strong growth companies, if purchased at attractive prices, have the potential to provide investors with competitive returns over the long term.

Thank you for investing with Federated. We look forward to keeping you informed about Federated Kaufmann Fund through future reports. In the meantime, please feel free to visit our enhanced website, [FederatedInvestors.com](http://FederatedInvestors.com), for regular updates and commentary on economic and market developments from our investment strategists.

Sincerely yours,



Lawrence Auriana  
Portfolio Co-Manager



Hans Utsch  
Portfolio Co-Manager

June 15, 2011

<sup>2</sup> Effective December 31, 2010, the fund's Class K Shares was renamed Class R Shares. The change in share class designation will not impact the fund's operation in any way.



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# FEDERATED KAUFMANN FUND

Fund Established 2001

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**A Portfolio of Federated Equity Funds**

## **SEMI-ANNUAL SHAREHOLDER REPORT**

April 30, 2011

**Class R Shares (formerly Class K Shares)**

**FINANCIAL HIGHLIGHTS**

**SHAREHOLDER EXPENSE EXAMPLE**

**PORTFOLIO OF INVESTMENTS SUMMARY TABLE**

**PORTFOLIO OF INVESTMENTS**

**STATEMENT OF ASSETS AND LIABILITIES**

**STATEMENT OF OPERATIONS**

**STATEMENT OF CHANGES IN NET ASSETS**

**NOTES TO FINANCIAL STATEMENTS**

**EVALUATION AND APPROVAL OF ADVISORY CONTRACT**

**VOTING PROXIES ON FUND PORTFOLIO SECURITIES**

**QUARTERLY PORTFOLIO SCHEDULE**

**Not FDIC Insured ■ May Lose Value ■ No Bank Guarantee**

# Financial Highlights – Class R Shares

(For a Share Outstanding Throughout Each Period)

|   | Six Months<br>Ended<br>(unaudited)<br>4/30/2011 | Year Ended October 31, |                       |                     |                     |                     |
|---|---|------------------------|-----------------------|---------------------|---------------------|---------------------|
|   |   | 2010                   | 2009                  | 2008                | 2007                | 2006                |
| <b>Net Asset Value,<br/>Beginning of Period</b>   | <b>\$5.27</b>                                   | <b>\$4.23</b>          | <b>\$3.81</b>         | <b>\$7.03</b>       | <b>\$6.08</b>       | <b>\$5.52</b>       |
| <b>Income From<br/>Investment<br/>Operations:</b>   |   |                        |                       |                     |                     |                     |
| Net investment<br>income (loss)   | (0.03) <sup>1</sup>                             | 0.02 <sup>1</sup>      | (0.00) <sup>1,2</sup> | (0.03) <sup>1</sup> | (0.04) <sup>1</sup> | (0.06) <sup>1</sup> |
| Net realized and<br>unrealized gain (loss) on<br>investments, written<br>options, futures<br>contracts, short sales<br>and foreign<br>currency transactions | 0.68  | 1.03                   | 0.42                  | (2.56)              | 1.73                | 0.95                |
| <b>TOTAL FROM<br/>INVESTMENT<br/>OPERATIONS</b>   | <b>0.65</b>                                     | <b>1.05</b>            | <b>0.42</b>           | <b>(2.59)</b>       | <b>1.69</b>         | <b>0.89</b>         |
| <b>Less Distributions:</b>  |   |                        |                       |                     |                     |                     |
| Distributions from net<br>investment income   | (0.03)  | (0.01)                 | —                     | —                   | —                   | —                   |
| Distributions from net<br>realized gain on<br>investments and foreign<br>currency transactions  | —   | —                      | —                     | (0.63)              | (0.74)              | (0.33)              |
| <b>TOTAL<br/>DISTRIBUTIONS</b>  | <b>(0.03)</b>                                   | <b>(0.01)</b>          | <b>—</b>              | <b>(0.63)</b>       | <b>(0.74)</b>       | <b>(0.33)</b>       |
| <b>Net Asset Value,<br/>End of Period</b>   | <b>\$5.89</b>                                   | <b>\$5.27</b>          | <b>\$4.23</b>         | <b>\$3.81</b>       | <b>\$7.03</b>       | <b>\$6.08</b>       |
| <b>Total Return<sup>3</sup></b>   | <b>12.45%</b>                                   | <b>24.81%</b>          | <b>11.02%</b>         | <b>(40.23)%</b>     | <b>31.07%</b>       | <b>16.85%</b>       |
| <b>Ratios to Average<br/>Net Assets:</b>  |   |                        |                       |                     |                     |                     |
| Net expenses  | 1.95% <sup>4,5</sup>                            | 1.95% <sup>5</sup>     | 1.95% <sup>5</sup>    | 1.95% <sup>5</sup>  | 1.95% <sup>5</sup>  | 1.95%               |
| Net expenses excluding<br>dividends and other<br>expenses related to<br>short sales   | 1.95% <sup>4,5</sup>                            | 1.95% <sup>5</sup>     | 1.95% <sup>5</sup>    | 1.95% <sup>5</sup>  | 1.95% <sup>5</sup>  | 1.95%               |
| Net investment<br>income (loss)   | (0.97)% <sup>4</sup>                            | 0.39%                  | (0.12)%               | (0.56)%             | (0.63)%             | (0.99)%             |
| Expense waiver/<br>reimbursement <sup>6</sup>   | 0.53% <sup>4</sup>                              | 0.54%                  | 0.53%                 | 0.49%               | 0.48%               | 0.46%               |
| <b>Supplemental Data:</b>   |   |                        |                       |                     |                     |                     |
| Net assets, end of period<br>(000 omitted)  | \$3,865,918                                     | \$3,621,789            | \$3,168,922           | \$3,051,697         | \$5,432,110         | \$4,330,877         |
| Portfolio turnover  | 31%   | 54%                    | 91%                   | 78%                 | 49%                 | 64%                 |

- 1 *Per share numbers have been calculated using the average shares method.*
- 2 *Represents less than \$0.01.*
- 3 *Based on net asset value. Total returns for periods of less than one year are not annualized.*
- 4 *Computed on an annualized basis.*
- 5 *The net expense ratio is calculated without reduction for fees paid indirectly for expense offset arrangements. The net expense ratios are 1.95%, 1.95%, 1.95%, 1.95% and 1.95% after taking into account these expense reductions for the six months ended April 30, 2011, and the years ended October 31, 2010, 2009, 2008 and 2007, respectively. The net expenses ratios excluding dividends and other expenses related to short sales are also calculated without reduction for these fees paid indirectly for expense offset arrangements.*
- 6 *This expense decrease is reflected in both the net expense and the net investment income (loss) ratios shown above.*

See Notes which are an integral part of the Financial Statements

## Shareholder Expense Example (unaudited)

As a shareholder of the Fund, you incur two types of costs: (1) transaction costs, including sales charges (loads) on purchase or redemption payments and redemption/exchange fees; and (2) ongoing costs, including management fees and to the extent applicable, distribution (12b-1) fees and/or shareholder services fees and other Fund expenses. This Example is intended to help you to understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds. It is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period from November 1, 2010 to April 30, 2011.

### **ACTUAL EXPENSES**

The first section of the table below provides information about actual account values and actual expenses. You may use the information in this section, together with the amount you invested, to *estimate* the expenses that you incurred over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first section under the heading entitled “Expenses Paid During Period” to estimate the expenses attributable to your investment during this period.

### **HYPOTHETICAL EXAMPLE FOR COMPARISON PURPOSES**

The second section of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an *assumed* rate of return of 5% per year before expenses, which is not the Fund’s actual return. Thus, you should *not* use the hypothetical account values and expenses to estimate the actual ending account balance or your expenses for the period. Rather, these figures are required to be provided to enable you to compare the ongoing costs of investing in the Fund with other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs, such as sales charges (loads) on purchase or redemption payments, or redemption/exchange fees. Therefore, the second section of the table is useful in comparing ongoing costs only, and will not help you determine the relative *total* costs of owning different funds. In addition, if these transaction costs were included, your costs would have been higher.

|  | <b>Beginning<br/>Account Value<br/>11/1/2010</b> | <b>Ending<br/>Account Value<br/>4/30/2011</b> | <b>Expenses Paid<br/>During Period<sup>1</sup></b> |
|--|--|---|--|
| <b>Actual</b>  | \$1,000  | \$1,124.50                                    | \$10.27  |
| <b>Hypothetical (assuming a 5% return<br/>before expenses)</b> | \$1,000  | \$1,015.12                                    | \$9.74   |

1 Expenses are equal to the Fund's annualized net expense ratio of 1.95%, multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half-year period).

# Portfolio of Investments Summary Table (unaudited)

At April 30, 2011, the Fund's sector composition<sup>1</sup> was as follows:

| <b>Sector Composition</b>                     | <b>Percentage of<br/>Total Net Assets</b> |
|---|---|
| Health Care                                   | 19.9%                                     |
| Industrials                                   | 19.3%                                     |
| Information Technology                        | 18.3%                                     |
| Financials                                    | 16.9%                                     |
| Consumer Discretionary                        | 9.8%                                      |
| Materials                                     | 6.8%                                      |
| Energy  | 4.3%                                      |
| Consumer Staples                              | 2.5%                                      |
| Telecommunication Services                    | 0.8%                                      |
| Utilities                                     | 0.7%                                      |
| Securities Lending Collateral <sup>2</sup>    | 8.9%                                      |
| Cash Equivalents <sup>3</sup>                 | 0.3%                                      |
| Other Assets and Liabilities—Net <sup>4</sup> | (8.5)%                                    |
| <b>TOTAL</b>                                  | <b>100.0%</b>                             |

- 1 Except for Securities Lending Collateral, Cash Equivalents and Other Assets and Liabilities, sector classifications are based upon, and individual portfolio securities are assigned to, the classifications of the Global Industry Classification System (GICS), except that the Adviser assigns a classification to securities not classified by the GICS and to securities for which the Adviser does not have access to the classification made by the GICS.*
- 2 Cash collateral received from lending portfolio securities, which is invested in short-term investments such as repurchase agreements or money market mutual funds.*
- 3 Cash Equivalents include any investments in money market mutual funds and/or overnight repurchase agreements other than those representing securities lending collateral.*
- 4 Assets, other than investments in securities, less liabilities. See Statement of Assets and Liabilities.*

# Portfolio of Investments

April 30, 2011 (unaudited)

| Shares or<br>Principal<br>Amount |  | Value in<br>U.S. Dollars |
|----------------------------------|--|--------------------------|
|                                  | COMMON STOCKS—98.3%                                      |                          |
|                                  | <b>Consumer Discretionary—9.8%</b>                       |                          |
| 215,194                          | <sup>1</sup> Arcos Dorados Holdings, Inc.                | \$ 4,740,724             |
| 1,363,857                        | Bharat Forge Ltd.  | 10,763,234               |
| 5,893,669                        | Cia Hering   | 127,561,295              |
| 1,491,581                        | Ctrip.com International Ltd., ADR                        | 72,669,826               |
| 30,000,000                       | <sup>1</sup> Genting Singapore PLC                       | 53,361,521               |
| 7,636,638                        | Golden Eagle Retail Group Ltd.                           | 19,954,884               |
| 1,000,000                        | <sup>1,2,3</sup> Hydrogen Corp.                          | 29,000                   |
| 18,481,903                       | <sup>1</sup> L'Occitane International SA                 | 44,311,352               |
| 784,000                          | <sup>1</sup> Las Vegas Sands Corp.                       | 36,855,840               |
| 2,112,700                        | <sup>1</sup> Magazine Luiza SA                           | 21,486,906               |
| 2,011,171                        | National CineMedia, Inc.                                 | 35,074,822               |
| 8,924,400                        | Parkson Retail Group Ltd.                                | 13,804,497               |
| 892,000                          | <sup>1</sup> Penn National Gaming, Inc.                  | 35,688,920               |
| 13,350                           | Rakuten, Inc.  | 12,406,449               |
| 7,824,000                        | <sup>4</sup> Restoque Comercio e Confeccoes de Roupas SA | 92,702,365               |
| 12,214,053                       | <sup>1</sup> Sands China Ltd.                            | 34,453,503               |
| 115,150                          | <sup>1</sup> Shutterfly, Inc.                            | 7,088,634                |
| 595,000                          | <sup>1</sup> Vera Bradley, Inc.                          | 28,940,800               |
| 500,000                          | <sup>1</sup> Visteon Corp.                               | 33,715,000               |
| 196,000                          | Wynn Resorts Ltd.  | 28,841,400               |
| 1,721,960                        | <sup>1</sup> Yoox SpA                                    | 31,326,136               |
|                                  | <b>TOTAL</b>   | <b>745,777,108</b>       |
|                                  | <b>Consumer Staples—2.5%</b>                             |                          |
| 1,113,600                        | <sup>1</sup> Darling International, Inc.                 | 18,006,912               |
| 608,882                          | Drogasil SA  | 4,373,485                |
| 7,404,121                        | <sup>1</sup> Hypermarcas SA                              | 99,305,208               |
| 871,442                          | Philip Morris International, Inc.                        | 60,512,932               |
| 398,820                          | <sup>1</sup> United Breweries Co., Inc.                  | 4,181,773                |
|                                  | <b>TOTAL</b>   | <b>186,380,310</b>       |
|                                  | <b>Energy—3.9%</b>                                       |                          |
| 440,000                          | Apache Corp.   | 58,682,800               |
| 808,500                          | Canadian Natural Resources Ltd.                          | 37,967,160               |
| 295,000                          | <sup>1</sup> Concho Resources, Inc.                      | 31,520,750               |
| 500,000                          | <sup>1</sup> Dresser-Rand Group, Inc.                    | 26,270,000               |

**Shares or  
Principal  
Amount**
**Value in  
U.S. Dollars**

| COMMON STOCKS—continued |   |                    |
|-------------------------|---|--------------------|
| <b>Energy—continued</b> |   |                    |
| 350,000                 | <sup>5</sup> EOG Resources, Inc.                      | \$ 39,518,500      |
| 509,600                 | <sup>5</sup> Pioneer Natural Resources, Inc.          | 52,096,408         |
| 1,025,000               | <sup>5</sup> Suncor Energy, Inc.                      | 47,191,000         |
|                         | <b>TOTAL</b>  | <b>293,246,618</b> |
| <b>Financials—16.9%</b> |   |                    |
| 1,000,000               | American Express Co.                                  | 49,080,000         |
| 5,636,438               | <sup>1</sup> BR Malls Participacoes                   | 59,330,926         |
| 1,000,000               | Bank of New York Mellon Corp.                         | 28,960,000         |
| 305,200                 | BlackRock, Inc.                                       | 59,800,888         |
| 4,441,478               | Brasil Brokers Participacoes                          | 24,420,789         |
| 2,000,000               | <sup>1</sup> CB Richard Ellis Services, Inc.          | 53,420,000         |
| 21,261,000              | <sup>1,4</sup> CETIP SA                               | 352,728,261        |
| 15,000,000              | <sup>5</sup> Chimera Investment Corp.                 | 60,750,000         |
| 1,512,200               | DLF Ltd.  | 7,632,939          |
| 2,438,759               | <sup>1</sup> E*Trade Group, Inc.                      | 39,605,446         |
| 1                       | <sup>1,2,6</sup> FA Private Equity Fund IV LP         | 874,977            |
| 7,878,000               | <sup>1</sup> Fibra Uno Administracion SA              | 13,413,206         |
| 84,582                  | <sup>5</sup> Greenhill & Co., Inc.                    | 4,990,338          |
| 6,000,000               | Housing Development Finance Corp. Ltd.                | 96,396,982         |
| 169,216                 | <sup>1</sup> IFM Investments Ltd., ADR                | 477,189            |
| 3,000,000               | Infrastructure Development Finance Co. Ltd.           | 9,873,606          |
| 1                       | <sup>1,2,8</sup> Infrastructure Fund                  | 6,581              |
| 2,000,000               | Invesco Ltd.  | 49,740,000         |
| 1,850,000               | <sup>5</sup> JPMorgan Chase & Co.                     | 84,415,500         |
| 1,738,927               | <sup>1</sup> LPS Brasil Cons De Imoveis               | 47,087,649         |
| 1,000,000               | Morgan Stanley  | 26,150,000         |
| 1,117,787               | Multiplan Empreendimentos Imobiliarios SA             | 23,269,466         |
| 23,142,407              | PT Bank Central Asia                                  | 20,045,735         |
| 1                       | <sup>2,6</sup> Peachtree Leadscope LLC, Class A and B | 0                  |
| 1                       | <sup>1,2,6</sup> Peachtree Leadscope LLC, Class C     | 3,250,000          |
| 2,478,907               | Power Finance Corp.                                   | 13,028,830         |
| 1                       | <sup>2,6</sup> Rocket Ventures II                     | 0                  |
| 1,658,700               | Rural Electrification Corp. Ltd.                      | 8,933,253          |
| 700,000                 | State Street Corp.                                    | 32,585,000         |
| 1                       | <sup>2,6</sup> Vennworks                              | 0                  |
| 2,461,635               | Wells Fargo & Co.                                     | 71,658,195         |

**Shares or  
Principal  
Amount**
**Value in  
U.S. Dollars**

| COMMON STOCKS—continued     |  |                      |
|-----------------------------|--|----------------------|
| <b>Financials—continued</b> |  |                      |
| 1,000,000                   | Willis Group Holdings PLC                          | \$ 41,320,000        |
|                             | <b>TOTAL</b>                                       | <b>1,283,245,756</b> |
| <b>Health Care—19.3%</b>    |  |                      |
| 6,000,000                   | <sup>1,4,5</sup> Alkermes, Inc.                    | 86,520,000           |
| 495,000                     | <sup>5</sup> Allergan, Inc.                        | 39,382,200           |
| 1,487,712                   | <sup>1</sup> Allscripts Healthcare Solutions, Inc. | 32,045,317           |
| 1,000,000                   | <sup>1,5</sup> Amarin Corporation PLC., ADR        | 16,000,000           |
| 1,079,400                   | <sup>1</sup> Amil Participacoes SA                 | 13,276,373           |
| 1,730,000                   | <sup>1</sup> Anadys Pharmaceuticals, Inc.          | 2,110,600            |
| 1                           | <sup>2,6</sup> Apollo Investment Fund V            | 3,810,803            |
| 2                           | <sup>1,6</sup> Ardais Corp.                        | 0                    |
| 257,587                     | <sup>1,5</sup> Athenahealth, Inc.                  | 11,908,247           |
| 1,313,500                   | Aurobindo Pharma Ltd.                              | 5,790,499            |
| 2,075,000                   | <sup>1</sup> Biocon Ltd.                           | 17,303,147           |
| 185,980                     | <sup>1</sup> Chindex International, Inc.           | 3,196,996            |
| 600,000                     | <sup>1,2,3,4</sup> Conceptus, Inc.                 | 9,258,000            |
| 1,339,286                   | <sup>1,2,4</sup> Conceptus, Inc.                   | 20,665,183           |
| 3,653,165                   | <sup>1</sup> Corcept Therapeutics, Inc.            | 16,073,926           |
| 500,000                     | <sup>1,2,6</sup> Cortek, Inc.                      | 0                    |
| 4,250,000                   | <sup>1,4</sup> Cubist Pharmaceuticals, Inc.        | 143,862,500          |
| 1                           | <sup>2,6</sup> Denovo Ventures I LP                | 1,716,249            |
| 4,721,065                   | <sup>1,4</sup> Dexcom, Inc.                        | 78,605,732           |
| 1,946,734                   | Dishman Pharmaceuticals & Chemicals Ltd.           | 4,254,818            |
| 552,681                     | <sup>1</sup> Durect Corp.                          | 2,061,500            |
| 12,850,000                  | <sup>1,4</sup> Dyax Corp.                          | 25,700,000           |
| 3,555,556                   | <sup>1</sup> Endologix, Inc.                       | 28,266,670           |
| 2,231,840                   | <sup>1,4,5</sup> ExamWorks Group, Inc.             | 49,546,848           |
| 1,800,000                   | <sup>1</sup> Express Scripts, Inc., Class A        | 102,132,000          |
| 2,405,000                   | HCA, Inc.  | 78,884,000           |
| 696,200                     | Hikma Pharmaceuticals PLC                          | 9,139,273            |
| 1,995,000                   | <sup>1</sup> Hologic, Inc.                         | 43,929,900           |
| 1,495,000                   | <sup>1,5</sup> Illumina, Inc.                      | 106,115,100          |
| 2,095,000                   | <sup>1,5</sup> Insulet Corp.                       | 45,021,550           |
| 800,000                     | <sup>1,5</sup> KV Pharmaceutical Co., Class A      | 3,144,000            |
| 1                           | <sup>2,6</sup> Latin Healthcare Fund               | 921,813              |
| 600,000                     | <sup>1</sup> LifeWatch AG                          | 5,327,886            |
| 1,600,000                   | <sup>1,5</sup> Mylan Laboratories, Inc.            | 39,872,000           |

**Shares or  
Principal  
Amount**
**Value in  
U.S. Dollars**

| COMMON STOCKS—continued      |   |                      |
|------------------------------|---|----------------------|
| <b>Health Care—continued</b> |   |                      |
| 3,000,000                    | <sup>1</sup> Nektar Therapeutics                          | \$ 31,140,000        |
| 1                            | <sup>2,6</sup> Peachtree Velquest                         | 0                    |
| 5,246,193                    | <sup>1,4</sup> Progenics Pharmaceuticals, Inc.            | 38,874,290           |
| 4,302,393                    | <sup>1,4,5</sup> Protalix Biotherapeutics, Inc.           | 29,987,679           |
| 156,855                      | <sup>1,5</sup> Regeneron Pharmaceuticals, Inc.            | 8,016,859            |
| 2,998,043                    | <sup>1,4,5</sup> Repligen Corp.                           | 12,052,133           |
| 3,350,000                    | <sup>1,5</sup> Seattle Genetics, Inc.                     | 55,643,500           |
| 3,650,025                    | Shandong Weigao Group Medical Polymer Co., Ltd.           | 9,916,695            |
| 274                          | <sup>1,6</sup> Sotaira, Inc.                              | 0                    |
| 358,728                      | <sup>1</sup> Threshold Pharmaceuticals, Inc.              | 742,567              |
| 7,615,728                    | <sup>1,4,5</sup> Vical, Inc.                              | 28,635,137           |
| 500,000                      | <sup>1,5</sup> Vivus, Inc.                                | 3,890,000            |
| 6,000,000                    | <sup>1</sup> Warner Chilcott PLC                          | 138,300,000          |
| 712,300                      | <sup>1</sup> Watson Pharmaceuticals, Inc.                 | 44,176,846           |
| 259,600                      | <sup>1</sup> Wellpoint, Inc.                              | 19,934,684           |
|                              | <b>TOTAL</b>  | <b>1,467,153,520</b> |
| <b>Industrials—19.3%</b>     |   |                      |
| 435,000                      | <sup>5</sup> 3M Co.                                       | 42,286,350           |
| 400,000                      | <sup>1</sup> Atlas Air Worldwide Holdings, Inc.           | 27,564,000           |
| 825,000                      | Bharat Heavy Electricals Ltd.                             | 37,461,869           |
| 200,000                      | <sup>5</sup> C.H. Robinson Worldwide, Inc.                | 16,036,000           |
| 1,000,000                    | <sup>5</sup> CLARCOR, Inc.                                | 45,190,000           |
| 685,000                      | CSX Corp.   | 53,902,650           |
| 343,000                      | <sup>5</sup> Caterpillar, Inc.                            | 39,585,630           |
| 1,600,000                    | <sup>1,5</sup> China Ming Yang Wind Power Group Ltd., ADR | 13,776,000           |
| 500,000                      | <sup>1,5</sup> CoStar Group, Inc.                         | 34,010,000           |
| 1,631,527                    | Crompton Greaves Ltd.                                     | 9,352,994            |
| 833,000                      | Cummins, Inc.   | 100,109,940          |
| 2,050,000                    | Danaher Corp.   | 113,242,000          |
| 785,000                      | Dover Corp.   | 53,411,400           |
| 2,100,000                    | Expeditors International Washington, Inc.                 | 113,967,000          |
| 1,100,000                    | FedEx Corp.   | 105,237,000          |
| 600,000                      | IESI-BFC Ltd.   | 15,204,000           |
| 320,800                      | <sup>1,5</sup> IHS, Inc., Class A                         | 28,307,392           |
| 250,000                      | Joy Global, Inc.  | 25,237,500           |
| 580,000                      | <sup>1</sup> Kansas City Southern Industries, Inc.        | 33,703,800           |
| 350,000                      | Landstar System, Inc.                                     | 16,590,000           |

**Shares or  
Principal  
Amount**
**Value in  
U.S. Dollars**

| COMMON STOCKS—continued             |  |                      |
|-------------------------------------|--|----------------------|
| <b>Industrials—continued</b>        |  |                      |
| 642,000                             | Localiza Rent A Car SA                                   | \$ 11,018,307        |
| 400,000                             | MSC Industrial Direct Co.                                | 28,636,000           |
| 4,704,116                           | Max India Ltd.   | 17,898,820           |
| 1,800,000                           | <sup>1</sup> Owens Corning, Inc.                         | 68,112,000           |
| 580,000                             | <sup>5</sup> Precision Castparts Corp.                   | 89,621,600           |
| 1,685,264                           | <sup>1,5</sup> Ryanair Holdings PLC, ADR                 | 51,366,847           |
| 600,000                             | <sup>1</sup> Teledyne Technologies, Inc.                 | 30,294,000           |
| 1,400,000                           | <sup>5</sup> Textron, Inc.                               | 36,540,000           |
| 384,000                             | Timken Co.   | 21,653,760           |
| 588,000                             | Union Pacific Corp.                                      | 60,840,360           |
| 625,000                             | United Technologies Corp.                                | 55,987,500           |
| 1,950,000                           | <sup>1</sup> Verisk Analytics, Inc.                      | 64,155,000           |
|                                     | <b>TOTAL</b>   | <b>1,460,299,719</b> |
| <b>Information Technology—18.3%</b> |  |                      |
| 501,196                             | <sup>1,2</sup> Vianet Group, Inc., ADR                   | 7,773,550            |
| 187,257                             | <sup>1</sup> Acme Packet, Inc.                           | 15,469,301           |
| 1,144,872                           | <sup>1</sup> Akamai Technologies, Inc.                   | 39,429,391           |
| 5,392,725                           | <sup>1</sup> Amadeus IT Holding SA                       | 112,956,906          |
| 215,000                             | <sup>1</sup> Apple, Inc.                                 | 74,869,450           |
| 432,500                             | <sup>1,5</sup> Asiainfo Holdings, Inc.                   | 8,174,250            |
| 1,960,000                           | <sup>1</sup> Avago Technologies Ltd.                     | 65,581,600           |
| 300,000                             | <sup>1</sup> BMC Software, Inc.                          | 15,069,000           |
| 700,000                             | <sup>1,5</sup> Blackboard, Inc.                          | 33,677,000           |
| 2,197,539                           | <sup>1,5</sup> Camelot Information Systems, Inc., ADR    | 42,412,503           |
| 750,000                             | <sup>1,5</sup> Check Point Software Technologies Ltd.    | 41,197,500           |
| 600,000                             | <sup>1</sup> Citrix Systems, Inc.                        | 50,604,000           |
| 2,950,000                           | <sup>1</sup> Comverse Technology, Inc.                   | 22,479,000           |
| 1,500,000                           | <sup>1,5</sup> EMC Corp.                                 | 42,510,000           |
| 1,059,322                           | <sup>2,6</sup> Expand Networks Ltd.                      | 0                    |
| 141,600                             | <sup>1</sup> Google, Inc.                                | 77,044,560           |
| 815,000                             | <sup>1,5</sup> hiSoft Technology International Ltd., ADR | 15,207,900           |
| 1,800,000                           | <sup>1</sup> Intralinks Holdings, Inc.                   | 57,168,000           |
| 770,000                             | <sup>1</sup> Magnachip Semiconductor Corp.               | 10,741,500           |
| 1,500,000                           | <sup>5</sup> Microchip Technology, Inc.                  | 61,560,000           |
| 3,806,875                           | <sup>1</sup> Microsemi Corp.                             | 89,842,250           |
| 2,000,000                           | <sup>1</sup> NCR Corp.                                   | 39,620,000           |
| 2,040,000                           | <sup>1</sup> NIC, Inc.                                   | 26,224,200           |

| Shares or<br>Principal<br>Amount |   | Value in<br>U.S. Dollars |
|----------------------------------|---|--------------------------|
|                                  | COMMON STOCKS—continued                               |                          |
|                                  | <b>Information Technology—continued</b>               |                          |
| 3,989,000                        | <sup>1,5</sup> NXP Semiconductors NV                  | \$ 133,232,600           |
| 670,000                          | <sup>1,5</sup> NetApp, Inc.                           | 34,826,600               |
| 5,900,000                        | <sup>1</sup> ON Semiconductor Corp.                   | 62,009,000               |
| 1                                | <sup>2,6</sup> Peachtree Open Networks                | 0                        |
| 675,000                          | Qualcomm, Inc.  | 38,367,000               |
| 755,191                          | <sup>1</sup> RADWARE Ltd.                             | 26,605,379               |
| 849,173                          | <sup>1,5</sup> RDA Microelectronics, Inc., ADR        | 11,166,625               |
| 600,000                          | <sup>1,5</sup> Rubicon Technology, Inc.               | 17,106,000               |
| 3,751,199                        | <sup>2,6</sup> Sensable Technologies, Inc.            | 0                        |
| 2,964,645                        | <sup>1,4</sup> TNS, Inc.                              | 48,709,117               |
| 3,350,000                        | <sup>1</sup> Telecity Group PLC                       | 29,411,841               |
| 265,052                          | Tencent Holdings Ltd.                                 | 7,622,932                |
| 241,744                          | <sup>1</sup> VanceInfo Technologies, Inc., ADR        | 7,774,487                |
| 350,000                          | <sup>1,5</sup> VistaPrint Ltd.                        | 19,040,000               |
|                                  | TOTAL   | 1,385,483,442            |
|                                  | <b>Materials—6.8%</b>                                 |                          |
| 195,850                          | <sup>5</sup> BASF SE                                  | 20,124,631               |
| 490,000                          | Barrick Gold Corp.                                    | 24,994,900               |
| 587,534                          | Eastman Chemical Co.                                  | 63,013,021               |
| 500,000                          | <sup>5</sup> Ecolab, Inc.                             | 26,380,000               |
| 3,511,300                        | <sup>1</sup> Greatview Aseptic Packaging Company Ltd. | 2,420,500                |
| 33,631,300                       | Huabao International Holdings Ltd.                    | 50,146,526               |
| 111,804,705                      | Lee & Man Paper Manufacturing Ltd.                    | 80,330,952               |
| 46,781,387                       | <sup>1</sup> Mongolian Mining Corp.                   | 54,902,564               |
| 490,000                          | Newmont Mining Corp.                                  | 28,718,900               |
| 510,000                          | <sup>5</sup> Praxair, Inc.                            | 54,274,200               |
| 1,770,000                        | <sup>1,5</sup> STR Holdings, Inc.                     | 29,151,900               |
| 1,000,000                        | <sup>5</sup> Sociedad Quimica Y Minera de Chile, ADR  | 61,030,000               |
| 18,519,500                       | <sup>1</sup> Yingde Gases Group Co.                   | 16,941,547               |
|                                  | TOTAL   | 512,429,641              |
|                                  | <b>Telecommunication Services—0.8%</b>                |                          |
| 2,880,378                        | <sup>1</sup> TW Telecom, Inc.                         | 62,043,342               |
|                                  | <b>Utilities—0.7%</b>                                 |                          |
| 146,559                          | <sup>1</sup> BF Utilities Ltd.                        | 2,760,274                |

**Shares or  
Principal  
Amount**
**Value in  
U.S. Dollars**

| COMMON STOCKS—continued            |   |               |
|------------------------------------|---|---------------|
| <b>Utilities—continued</b>         |   |               |
| 740,119                            | ITC Holdings Corp.  | \$ 52,496,641 |
|                                    | TOTAL   | 55,256,915    |
|                                    | TOTAL COMMON STOCKS<br>(IDENTIFIED COST \$4,889,621,270)          | 7,451,316,371 |
| WARRANTS—0.1%                      |   |               |
| <b>Consumer Discretionary—0.0%</b> |   |               |
| 250,000                            | <sup>1,6</sup> Hydrogen Corp., 5/5/2011                           | 0             |
| 200,000                            | <sup>1,6</sup> Hydrogen Corp., 8/22/2013                          | 0             |
| 870,000                            | <sup>1,6</sup> Hydrogen Corp., 10/23/2013                         | 0             |
|                                    | TOTAL   | 0             |
| <b>Health Care—0.1%</b>            |   |               |
| 1,500,000                          | <sup>1</sup> Advancis Pharmaceutical Corp., 4/12/2012             | 0             |
| 382,897                            | <sup>1</sup> Alexza Pharmaceuticals, Inc., 10/5/2016              | 478,928       |
| 157,125                            | <sup>1</sup> Clinical Data, Inc., 5/25/2012                       | 0             |
| 797,358                            | <sup>1</sup> Corcept Therapeutics, Inc., 4/21/2013                | 2,668,199     |
| 857,143                            | <sup>1</sup> Cyclacel Pharmaceuticals, Inc., 4/28/2013            | 341,110       |
| 242,091                            | <sup>1</sup> Cyclacel Pharmaceuticals, Inc., 2/17/2014            | 31,362        |
| 2,750,000                          | <sup>1</sup> Dynavax Technologies Corp., 4/16/2015                | 4,869,700     |
| 1,042,038                          | <sup>1</sup> Favrille, Inc., 11/7/2012                            | 0             |
| 27,781                             | <sup>1</sup> IntelliPharmaCeutics International, Inc., 11/14/2011 | 0             |
| 222,650                            | <sup>1</sup> Pharmacopeia, Inc., 4/19/2012                        | 22            |
| 1,713,798                          | <sup>1</sup> Threshold Pharmaceuticals, Inc., 10/5/2014           | 2,147,046     |
|                                    | TOTAL   | 10,536,367    |
|                                    | TOTAL WARRANTS<br>(IDENTIFIED COST \$1,158,382)                   | 10,536,367    |
| PREFERRED STOCKS—0.4%              |   |               |
| <b>Energy—0.4%</b>                 |   |               |
| 3,476,415                          | <sup>1,2,3</sup> Credit Lyonnaise, PERCS, Series 144A             | 29,674,678    |
| <b>Health Care—0.0%</b>            |   |               |
| 1,694,915                          | <sup>1,2,6</sup> Ardais Corp., Conv. Pfd.                         | 0             |
| 790,960                            | <sup>1,2,6</sup> Ardais Corp., Conv. Pfd., Series C               | 0             |
| 446,816                            | <sup>1,2,6</sup> Cortek, Inc., Conv. Pfd., Series D2              | 0             |
| 1,515,152                          | <sup>1,2,6</sup> Cortek, Inc., Pfd., Series D                     | 0             |
| 958,744                            | <sup>6</sup> Soteira, Inc., Pfd.                                  | 0             |
|                                    | TOTAL   | 0             |

| Shares or<br>Principal<br>Amount |  | Value in<br>U.S. Dollars |
|----------------------------------|--|--------------------------|
|                                  | PREFERRED STOCKS—continued   |                          |
|                                  | <b>Information Technology—0.0%</b>   |                          |
| 679,348                          | <sup>1,2,6</sup> Multiplex, Inc., Pfd., Series C   | \$ 0                     |
|                                  | TOTAL PREFERRED STOCKS<br>(IDENTIFIED COST \$45,298,894)   | 29,674,678               |
|                                  | CORPORATE BONDS—0.5%   |                          |
|                                  | <b>Consumer Discretionary—0.0%</b>   |                          |
| \$ 722,050                       | <sup>6</sup> Hydrogen Corp., 12.00%, 8/15/2011   | 0                        |
|                                  | <b>Health Care—0.5%</b>  |                          |
| 27,670,000                       | Insulet Corp., Conv. Bond, 5.375%, 6/15/2013   | 34,027,736               |
|                                  | <b>Information Technology—0.0%</b>   |                          |
| 24,802,000                       | <sup>2,3</sup> BearingPoint, Inc., Conv. Bond, 5.00%, 4/15/2025  | 1,488,120                |
|                                  | TOTAL CORPORATE BONDS<br>(IDENTIFIED COST \$51,147,526)  | 35,515,856               |
|                                  | MUTUAL FUND—9.2%   |                          |
| 695,886,422                      | <sup>4,7,8</sup> Federated Prime Value Obligations Fund, Institutional Shares, 0.18%<br>(AT NET ASSET VALUE) | 695,886,422              |
|                                  | TOTAL INVESTMENTS—108.5%<br>(IDENTIFIED COST \$5,683,112,494) <sup>9</sup>                                   | 8,222,929,694            |
|                                  | OTHER ASSETS AND LIABILITIES - NET—(8.5)% <sup>10</sup>  | (642,555,354)            |
|                                  | TOTAL NET ASSETS—100%  | \$7,580,374,340          |

1 Non-income producing security.

2 Denotes a restricted security that either: (a) cannot be offered for public sale without first being registered, or being able to take advantage of an exemption from registration, under the Securities Act of 1933; or (b) is subject to a contractual restriction on public sales. At April 30, 2011, these restricted securities amounted to \$71,695,404, which represented 0.9% of total net assets.

3 Denotes a restricted security that may be resold without restriction to “qualified institutional buyers” as defined in Rule 144A under the Securities Act of 1933 and that the Fund has determined to be liquid under criteria established by the Fund’s Board of Trustees (the “Trustees”). At April 30, 2011, these liquid restricted securities amounted to \$40,449,798, which represented 0.5% of total net assets.

4 Affiliated holding.

5 All or a portion of these securities are temporarily on loan to unaffiliated broker/dealers.

6 Market quotations and price evaluations are not available. Fair value determined in accordance with procedures established by and under the general supervision of the Trustees.

7 7-Day net yield.

8 All or a portion of this security is held as collateral for securities lending.

9 Also represents cost for federal tax purposes.

10 Assets, other than investments in securities, less liabilities. See Statement of Assets and Liabilities.

Note: The categories of investments are shown as a percentage of total net assets at April 30, 2011.

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in the three broad levels listed below:

Level 1—quoted prices in active markets for identical securities, including investment companies with daily net asset values, if applicable.

Level 2—other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.). Also includes securities valued at amortized cost.

Level 3—significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used, as of April 30, 2011, in valuing the Fund's assets carried at fair value:

#### Valuation Inputs

|                           | Level 1—<br>Quoted<br>Prices and<br>Investments in<br>Mutual Funds | Level 2—<br>Other<br>Significant<br>Observable<br>Inputs | Level 3—<br>Significant<br>Unobservable<br>Inputs | Total                  |
|---------------------------|--|--|---|------------------------|
| <b>Equity Securities:</b> |  |  |   |                        |
| Common Stock              |  |  |   |                        |
| Domestic                  | \$4,731,452,556  | \$—  | \$10,580,423                                      | \$4,742,032,979        |
| International             | 1,834,744,025  | 874,539,367 <sup>1</sup>                                 | —   | 2,709,283,392          |
| Preferred Stock           |  |  |   |                        |
| International             | —  | 29,674,678   | —   | 29,674,678             |
| <b>Debt Securities:</b>   |  |  |   |                        |
| Corporate Bonds           | —  | 35,515,856   | —   | 35,515,856             |
| <b>Warrants</b>           | —  | 10,536,367   | —   | 10,536,367             |
| <b>Mutual Fund</b>        | 695,886,422  | —  | —   | 695,886,422            |
| <b>TOTAL SECURITIES</b>   | <b>\$7,262,083,003</b>   | <b>\$950,266,268</b>                                     | <b>\$10,580,423</b>                               | <b>\$8,222,929,694</b> |

1 Includes \$40,574,712 of securities transferred from Level 1 to Level 2 because fair value factors were applied to equity securities traded principally in foreign markets to account for significant post market close activity.

Following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value:

|  | <b>Investments<br/>in Common<br/>Stock—<br/>Domestic<br/>Securities</b> | <b>Investments<br/>in Common<br/>Stock—<br/>International<br/>Securities</b> | <b>Investments<br/>in Preferred<br/>Stock—<br/>Domestic<br/>Securities</b> |
|--|---|--|--|
| Balance as of<br>November 1, 2010  | \$11,113,453  | \$ 493,814   | \$ 616,987   |
| Realized gain/loss   | —   | 318,661  | —  |
| Change in unrealized<br>appreciation/<br>depreciation  | (533,030)   | (493,814)  | (616,987)  |
| Net purchases (sales)  | —   | (318,661)  | —  |
| Balance as of April 30, 2011   | \$10,580,423  | \$ —   | \$ —   |
| The total change in unrealized<br>appreciation (depreciation)<br>included in the Statement of<br>Operations attributable to<br>investments still held<br>at April 30, 2011 | \$ (533,030)  | \$ —   | \$(616,987)  |

The following acronyms are used throughout this portfolio:

ADR —American Depositary Receipt  
PERCS—Preferred Equity Redemption Cumulative Stock

See Notes which are an integral part of the Financial Statements

# Statement of Assets and Liabilities

April 30, 2011 (unaudited)

## Assets:

|   |                      |
|---|----------------------|
| Total investments in securities, at value including \$656,911,267 of securities loaned and \$1,713,733,667 of investments in affiliated holdings (Note 5) (identified cost \$5,683,112,494) | \$8,222,929,694      |
| Cash denominated in foreign currencies (identified cost \$1,032,190)  | 1,034,631            |
| Income receivable   | 3,540,763            |
| Receivable for investments sold   | 85,071,295           |
| Receivable for shares sold  | 4,567,695            |
| <b>TOTAL ASSETS</b>   | <b>8,317,144,078</b> |

## Liabilities:

|   |                    |
|---|--------------------|
| Payable for investments purchased                           | \$ 39,555,971      |
| Payable for shares redeemed                                 | 15,785,507         |
| Payable for collateral due to broker for securities lending | 670,667,804        |
| Payable for limited partnership commitments                 | 2,500,000          |
| Payable for Directors'/Trustees' fees                       | 7,446              |
| Payable for distribution services fee (Note 5)              | 1,313,987          |
| Payable for shareholder services fee (Note 5)               | 3,724,832          |
| Accrued expenses  | 3,214,191          |
| <b>TOTAL LIABILITIES</b>                                    | <b>736,769,738</b> |

|   |                 |
|---|-----------------|
| Net assets for 1,298,659,862 shares outstanding | \$7,580,374,340 |
|---|-----------------|

## Net Assets Consist of:

|  |                        |
|--|------------------------|
| Paid-in capital  | \$5,289,722,880        |
| Net unrealized appreciation of investments and translation of assets and liabilities in foreign currency           | 2,539,909,796          |
| Accumulated net realized loss on investments, futures contracts, written options and foreign currency transactions | (181,544,100)          |
| Distributions in excess of net investment income   | (67,714,236)           |
| <b>TOTAL NET ASSETS</b>  | <b>\$7,580,374,340</b> |

# Statement of Assets and Liabilities – continued

## **Net Asset Value, Offering Price and Redemption Proceeds Per Share**

### **Class A Shares:**

|   |        |
|---|--------|
| Net asset value per share (\$2,584,555,394 ÷ 439,141,337 shares outstanding), no par value, unlimited shares authorized | \$5.89 |
| Offering price per share (100/94.50 of \$5.89)  | \$6.23 |
| Redemption proceeds per share   | \$5.89 |

### **Class B Shares:**

|  |        |
|--|--------|
| Net asset value per share (\$446,678,834 ÷ 80,289,465 shares outstanding), no par value, unlimited shares authorized | \$5.56 |
| Offering price per share   | \$5.56 |
| Redemption proceeds per share (94.50/100 of \$5.56)  | \$5.25 |

### **Class C Shares:**

|   |        |
|---|--------|
| Net asset value per share (\$683,221,915 ÷ 122,838,988 shares outstanding), no par value, unlimited shares authorized | \$5.56 |
| Offering price per share  | \$5.56 |
| Redemption proceeds per share (99/100 of \$5.56)  | \$5.50 |

### **Class R Shares:**

|   |        |
|---|--------|
| Net asset value per share (\$3,865,918,197 ÷ 656,390,072 shares outstanding), no par value, unlimited shares authorized | \$5.89 |
| Offering price per share  | \$5.89 |
| Redemption proceeds per share (99.80/100 of \$5.89)   | \$5.88 |

See Notes which are an integral part of the Financial Statements

# Statement of Operations

Six Months Ended April 30, 2011 (unaudited)

## Investment Income:

|  |                   |
|--|-------------------|
| Dividends (including \$3,175,806 received from an affiliated holding and companies (Note 5))                               | \$31,257,367      |
| Interest (including \$743,631 received from an affiliated company (Note 5) and income on securities loaned of \$3,426,010) | 4,322,782         |
| <b>TOTAL INCOME</b>  | <b>35,580,149</b> |

## Expenses:

|   |                   |
|---|-------------------|
| Investment adviser fee (Note 5)   | \$51,798,731      |
| Administrative fee (Note 5)   | 2,840,154         |
| Custodian fees  | 2,341,609         |
| Transfer and dividend disbursing agent fees and expenses—Class A Shares | 1,848,624         |
| Transfer and dividend disbursing agent fees and expenses—Class B Shares | 335,420           |
| Transfer and dividend disbursing agent fees and expenses—Class C Shares | 502,269           |
| Transfer and dividend disbursing agent fees and expenses—Class R Shares | 2,897,021         |
| Directors'/Trustees' fees   | 29,898            |
| Auditing fees   | 18,157            |
| Legal fees  | 2,967             |
| Portfolio accounting fees   | 103,848           |
| Distribution services fee—Class A Shares (Note 5)                       | 3,094,403         |
| Distribution services fee—Class B Shares (Note 5)                       | 1,684,331         |
| Distribution services fee—Class C Shares (Note 5)                       | 2,522,034         |
| Distribution services fee—Class R Shares (Note 5)                       | 9,181,943         |
| Shareholder services fee—Class A Shares (Note 5)                        | 3,061,549         |
| Shareholder services fee—Class B Shares (Note 5)                        | 561,444           |
| Shareholder services fee—Class C Shares (Note 5)                        | 825,378           |
| Shareholder services fee—Class R Shares (Note 5)                        | 4,559,923         |
| Account administration fee—Class A Shares                               | 20,795            |
| Account administration fee—Class C Shares                               | 1,519             |
| Account administration fee—Class R Shares                               | 12,564            |
| Share registration costs  | 45,615            |
| Printing and postage  | 293,395           |
| Insurance premiums  | 9,156             |
| Miscellaneous   | 45,665            |
| <b>TOTAL EXPENSES</b>   | <b>88,638,412</b> |

# Statement of Operations – continued

## **Waivers, Reimbursements and Reduction:**

|  |                |
|--|----------------|
| Waiver/reimbursement of investment adviser fee (Note 5)  | \$(5,452,498)  |
| Waiver of administrative fee (Note 5)  | (73,920)       |
| Waiver of distribution services fee—Class A Shares (Note 5)  | (1,535,933)    |
| Waiver of distribution services fee—Class C Shares (Note 5)  | (238,685)      |
| Waiver of distribution services fee—Class R Shares (Note 5)  | (7,029,031)    |
| Reimbursement of shareholder services fee—Class B Shares (Note 5)  | (168,588)      |
| Fees paid indirectly from directed brokerage arrangements (Note 6)   | (2,011)        |
| TOTAL WAIVERS, REIMBURSEMENTS<br>AND REDUCTION   | \$(14,500,666) |
| Net expenses   | \$ 74,137,746  |
| Net investment income (loss)   | (38,557,597)   |
| <b>Realized and Unrealized Gain on Investments and Foreign Currency Transactions:</b>  |                |
| Net realized gain on investments and foreign currency (including realized gain of \$67,239,858 on sale of investments in affiliated holdings (Note 5)) | 565,408,373    |
| Net change in unrealized appreciation of investments and translation of assets and liabilities in foreign currency                                     | 332,431,473    |
| Net realized and unrealized gain on investments and foreign currency transactions  | 897,839,846    |
| Change in net assets resulting from operations   | \$859,282,249  |

See Notes which are an integral part of the Financial Statements

# Statement of Changes in Net Assets

|   | <b>Six Months<br/>Ended<br/>(unaudited)<br/>4/30/2011</b> | <b>Year Ended<br/>10/31/2010</b> |
|---|---|----------------------------------|
| <b>Increase (Decrease) in Net Assets</b>  |   |                                  |
| <b>Operations:</b>  |   |                                  |
| Net investment income (loss)  | \$ (38,557,597)   | \$ 19,701,396                    |
| Net realized gain on investments, foreign currency transactions and investments sold short  | 565,408,373   | 253,892,900                      |
| Net change in unrealized appreciation/depreciation of investments and translation of assets and liabilities in foreign currency             | 332,431,473   | 1,256,013,974                    |
| CHANGE IN NET ASSETS RESULTING FROM OPERATIONS  | 859,282,249   | 1,529,608,270                    |
| <b>Distributions to Shareholders:</b>   |   |                                  |
| Distributions from net investment income  |   |                                  |
| Class A Shares  | (15,575,987)  | (4,293,307)                      |
| Class B Shares  | (253,483)   | —                                |
| Class C Shares  | (804,785)   | —                                |
| Class R Shares  | (22,868,722)  | (6,296,827)                      |
| CHANGE IN NET ASSETS RESULTING FROM DISTRIBUTIONS<br>TO SHAREHOLDERS  | (39,502,977)  | (10,590,134)                     |
| <b>Share Transactions:</b>  |   |                                  |
| Proceeds from sale of shares  | 425,687,572   | 758,063,276                      |
| Net asset value of shares issued to shareholders in payment of distributions declared   | 36,595,371  | 9,822,517                        |
| Cost of shares redeemed   | (947,005,437)   | (1,582,655,103)                  |
| CHANGE IN NET ASSETS RESULTING FROM SHARE TRANSACTIONS  | (484,722,494)   | (814,769,310)                    |
| Change in net assets  | 335,056,778   | 704,248,826                      |
| <b>Net Assets:</b>  |   |                                  |
| Beginning of period   | 7,245,317,562   | 6,541,068,736                    |
| End of period (including undistributed (distributions in excess of) net investment income of \$(67,714,236) and \$10,346,338, respectively) | \$7,580,374,340   | \$ 7,245,317,562                 |

See Notes which are an integral part of the Financial Statements

# Notes to Financial Statements

April 30, 2011 (unaudited)

## 1. ORGANIZATION

Federated Equity Funds (the “Trust”) is registered under the Investment Company Act of 1940, as amended (the “Act”), as an open-end management investment company. The Trust consists of 13 portfolios. The financial statements included herein are only those of Federated Kaufmann Fund (the “Fund”), a diversified portfolio. The financial statements of the other portfolios are presented separately. The assets of each portfolio are segregated and a shareholder’s interest is limited to the portfolio in which shares are held. Each portfolio pays its own expenses. The Fund offers four classes of shares: Class A Shares, Class B Shares, Class C Shares and Class R Shares. All shares of the Fund have equal rights with respect to voting, except on class-specific matters. The financial highlights of the Class A Shares, Class B Shares and Class C Shares are presented separately. The investment objective of the Fund is to provide capital appreciation.

## 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 U.S. generally accepted accounting principles (GAAP).

### Investment Valuation

In calculating its net asset value (NAV), the Fund generally values investments as follows:

- Equity securities listed on an exchange or traded through a regulated market system are valued at their last reported sale price or official closing price in their principal exchange or market.
- Shares of other mutual funds are valued based upon their reported NAVs.
- Fixed-income securities acquired with remaining maturities greater than 60 days are fair valued using price evaluations provided by a pricing service approved by the Trustees.
- Fixed-income securities acquired with remaining maturities of 60 days or less are valued at their cost (adjusted for the accretion of any discount or amortization of any premium), which approximates market value.
- Derivative contracts listed on exchanges are valued at their reported settlement or closing price.
- Over-the-counter (OTC) derivative contracts are fair valued using price evaluations provided by a pricing service approved by the Trustees.
- For securities that are fair valued in accordance with procedures established by and under the general supervision of the Trustees, certain factors may be considered such as: the purchase price of the security; information obtained by contacting the issuer; analysis of the issuer’s financial statements or other available documents; fundamental analytical data; the nature and duration of restrictions on disposition; the movement of the market in which the security is normally traded; and public trading in similar securities of the issuer or comparable issuers.

If the Fund cannot obtain a price or price evaluation from a pricing service for an investment, the Fund may attempt to value the investment based upon the mean of bid and asked quotations or fair value the investment based on price evaluations, from one or more dealers. If any price, quotation, price evaluation or other pricing source is not readily available when the NAV is calculated, the Fund uses the fair value of the investment determined in accordance with the procedures described below. There can be no assurance that the Fund could purchase or sell an investment at the price used to calculate the Fund's NAV.

### **Fair Valuation and Significant Events Procedures**

The Trustees have authorized the use of pricing services to provide evaluations of the current fair value of certain investments for purposes of calculating the NAV. Factors considered by pricing services in evaluating an investment include the yields or prices of investments of comparable quality, coupon, maturity, call rights and other potential prepayments, terms and type, reported transactions, indications as to values from dealers and general market conditions. Some pricing services provide a single price evaluation reflecting the bid-side of the market for an investment (a "bid" evaluation). Other pricing services offer both bid evaluations and price evaluations indicative of a price between the prices bid and asked for the investment (a "mid" evaluation). The Fund normally uses bid evaluations for U.S. Treasury and Agency securities. The Fund normally uses mid evaluations for other types of fixed-income securities and OTC derivative contracts. In the event that market quotations and price evaluations are not available for an investment, the fair value of the investment is determined in accordance with procedures adopted by the Trustees.

The Trustees also have adopted procedures requiring an investment to be priced at its fair value whenever the Adviser determines that a significant event affecting the value of the investment has occurred between the time as of which the price of the investment would otherwise be determined and the time as of which the NAV is computed. An event is considered significant if there is both an affirmative expectation that the investment's value will change in response to the event and a reasonable basis for quantifying the resulting change in value. Examples of significant events that may occur after the close of the principal market on which a security is traded, or after the time of a price evaluation provided by a pricing service or a dealer, include:

- With respect to securities traded in foreign markets, significant trends in U.S. equity markets or in the trading of foreign securities index futures or options contracts;
- With respect to price evaluations of fixed-income securities determined before the close of regular trading on the NYSE, actions by the Federal Reserve Open Market Committee and other significant trends in U.S. fixed-income markets;
- Political or other developments affecting the economy or markets in which an issuer conducts its operations or its securities are traded; and
- Announcements concerning matters such as acquisitions, recapitalizations, litigation developments, a natural disaster affecting the issuer's operations or regulatory changes or market developments affecting the issuer's industry.

The Trustees have approved the use of a pricing service to determine the fair value of equity securities traded principally in foreign markets when the Adviser determines that there has been a significant trend in the U.S. equity markets or in index futures trading. For other significant events, the Fund may seek to obtain more current quotations or price evaluations from alternative pricing sources. If a reliable alternative pricing source is not available, the Fund will determine the fair value of the investment using another method approved by the Trustees.

## **Repurchase Agreements**

The Fund may invest in repurchase agreements for short-term liquidity purposes. It is the policy of the Fund to require the other party to a repurchase agreement to transfer to the Fund's custodian or sub-custodian eligible securities or cash with a market value (after transaction costs) at least equal to the repurchase price to be paid under the repurchase agreement. The eligible securities are transferred to accounts with the custodian or sub-custodian in which the Fund holds a "securities entitlement" and exercises "control" as those terms are defined in the Uniform Commercial Code. The Fund has established procedures for monitoring the market value of the transferred securities and requiring the transfer of additional eligible securities if necessary to equal at least the repurchase price. These procedures also allow the other party to require securities to be transferred from the account to the extent that their market value exceeds the repurchase price or in exchange for other eligible securities of equivalent market value.

The insolvency of the other party or other failure to repurchase the securities may delay the disposition of the underlying securities or cause the Fund to receive less than the full repurchase price. Under the terms of the repurchase agreement, any amounts received by the Fund in excess of the repurchase price and related transaction costs must be remitted to the other party.

The Fund may enter into repurchase agreements in which eligible securities are transferred into joint trading accounts maintained by the custodian or sub-custodian for investment companies and other clients advised by the Fund's Adviser and its affiliates. The Fund will participate on a pro rata basis with the other investment companies and clients in its share of the securities transferred under such repurchase agreements and in its share of proceeds from any repurchase or other disposition of such securities.

## **Investment Income, Gains and Losses, Expenses and Distributions**

Investment transactions are accounted for on a trade-date basis. Realized gains and losses from investment transactions are recorded on an identified-cost basis. Interest income and expenses are accrued daily. Dividend income and distributions to shareholders are recorded on the ex-dividend date. Foreign dividends are recorded on the ex-dividend date or when the Fund is informed of the ex-dividend date. Distributions of net investment income, if any, are declared and paid annually. Non-cash dividends included in dividend income, if any, are recorded at fair value. Investment income, realized and unrealized gains and losses and certain fund-level expenses are allocated to each class based on relative average daily net assets, except that Class A Shares, Class B Shares, Class C Shares and Class R Shares may bear distribution services fees, shareholder services fees, account administration fees and certain transfer and dividend disbursing agent fees unique to those classes. Dividends are declared separately for each class. No class has preferential dividend rights; differences in per share dividend rates are generally due to differences in separate class expenses.

## **Premium and Discount Amortization**

All premiums and discounts on fixed-income securities are amortized/accreted using the effective interest rate method.

## **Federal Taxes**

It is the Fund's policy to comply with the Subchapter M provision of the Internal Revenue Code (the "Code") and to distribute to shareholders each year substantially all of its income. Accordingly, no provision for federal income tax is necessary. As of and during the six months ended April 30, 2011, the Fund did not have a liability for any uncertain tax positions. The Fund recognizes interest and penalties, if any, related to tax liabilities as income tax expense in the Statement of Operations. As of April 30, 2011, tax years 2007 through 2010 remain subject to examination by the Fund's major tax jurisdictions, which include the United States of America and the Commonwealth of Massachusetts.

The Fund may be subject to taxes imposed by governments of countries in which it invests. Such taxes are generally based on either income or gains earned or repatriated. The Fund accrues and applies such taxes to net investment income, net realized gains and net unrealized gains as income and/or gains are earned.

## **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. Losses may occur on these transactions due to changes in market conditions or the failure of counterparties to perform under the contract.

## **Foreign Exchange Contracts**

The Fund enters into foreign exchange contracts for the delayed delivery of securities or foreign currency exchange transactions. The Fund enters into foreign exchange contracts to protect assets against adverse changes in foreign currency exchange rates or exchange control regulations. Purchased contracts are used to acquire exposure to foreign currencies, whereas, contracts to sell are used to hedge the Fund's securities against currency fluctuations. Risks may arise upon entering into these transactions from the potential inability of counterparties to meet the terms of their commitments and from unanticipated movements in security prices or foreign exchange rates. The foreign exchange contracts are adjusted by the daily exchange rate of the underlying currency and any gains or losses are recorded for financial statement purposes as unrealized until the settlement date.

At April 30, 2011, the Fund had no outstanding foreign exchange contracts.

## **Foreign Currency Translation**

The accounting records of the Fund are maintained in U.S. dollars. All assets and liabilities denominated in foreign currencies (FCs) are translated into U.S. dollars based on the rates of exchange of such currencies against U.S. dollars on the date of valuation. Purchases and sales of securities, income and expenses are translated at the rate of exchange quoted on the respective date that such transactions are recorded. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

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

### Securities Lending

The Fund participates in a securities lending program providing for the lending of equity securities to qualified brokers. The Fund normally receives cash collateral for securities loaned that is invested in an affiliated money market fund or in short-term securities including repurchase agreements. Collateral is maintained at a minimum level of 100% of the market value of investments loaned, plus interest, if applicable. Earnings on collateral are allocated between the securities lending agent, as a fee for its services under the program, and the Fund, according to agreed-upon rates.

As of April 30, 2011, securities subject to this type of arrangement and related collateral were as follows:

| <b>Market Value of Securities Loaned</b> | <b>Market Value of Collateral</b> |
|--|-----------------------------------|
| \$656,911,267                            | \$670,667,804                     |

### Short Sales

In a short sale, the Fund sells a security it does not own in anticipation of a decline in the fair market value of the security. When the Fund sells a security short, it must borrow the security in order to deliver it at the completion of the sale. A gain, limited to the price at which the Fund sold the security short, or a loss, unlimited in size, will be recognized upon the termination of a short sale.

The Fund has an obligation to replace the borrowed security (e.g., to purchase the security at a future date and deliver it to the lender of the security). While the security is borrowed, the proceeds from the sale are deposited with the lender ("Prime Broker"). The Fund may incur two types of expenses from short sales: borrowing expenses and dividend expenses. Borrowing expenses may occur because the Fund may be obligated to pay fees to the Prime Broker on borrowed securities. This fee is normally based upon the market value of the borrowed security and is dependent upon the availability of the security. Dividend expenses may occur because the Fund has to pay the Prime Broker the equivalent of any dividends earned on the borrowed security.

## Restricted Securities

The Fund may purchase securities which are considered restricted. Restricted securities are securities that either: (a) cannot be offered for public sale without first being registered, or being able to take advantage of an exemption from registration, under the Securities Act of 1933; or (b) are subject to contractual restrictions on public sales. In some cases, when a security cannot be offered for public sale without first being registered, the issuer of the restricted security has agreed to register such securities for resale, at the issuer's expense, either upon demand by the Fund or in connection with another registered offering of the securities. Many such restricted securities may be resold in the secondary market in transactions exempt from registration. Restricted securities may be determined to be liquid under criteria established by the Trustees. The Fund will not incur any registration costs upon such resales. The Fund's restricted securities are valued at the price provided by dealers in the secondary market or, if no market prices are available, at the fair value as determined in accordance with procedures established by and under the general supervision of the Trustees.

Additional information on restricted securities, excluding securities purchased under Rule 144A, if applicable, that have been deemed liquid by the Trustees, held at April 30, 2011, is as follows:

| Security                               | Acquisition Date  | Cost         | Market Value |
|--|-------------------|--------------|--------------|
| Apollo Investment Fund V               | 5/18/2001         | \$ 0         | \$ 3,810,803 |
| Ardais Corp., Conv. Pfd.               | 3/2/2001-3/8/2001 | \$ 9,999,999 | \$ 0         |
| Ardais Corp., Conv. Pfd., Series C     | 12/18/2002        | \$ 4,666,664 | \$ 0         |
| Conceptus, Inc.                        | 4/10/2001         | \$ 5,000,000 | \$11,021,433 |
| Conceptus, Inc.                        | 8/11/2005         | \$ 4,500,000 | \$ 9,643,750 |
| Cortek, Inc.                           | 2/29/2000         | \$ 0         | \$ 0         |
| Cortek, Inc., Conv. Pfd., Series D2    | 3/31/2003         | \$ 0         | \$ 0         |
| Cortex, Inc., Pfd., Series D           | 6/18/2001         | \$ 0         | \$ 0         |
| Denovo Ventures I LP                   | 3/9/2000          | \$ 2,778,396 | \$ 1,716,249 |
| Expand Networks Ltd.                   | 9/22/2000         | \$ 2,500,000 | \$ 0         |
| FA Private Equity Fund IV LP           | 3/4/2002          | \$ 497,892   | \$ 874,977   |
| Infrastructure Fund                    | 8/11/2000         | \$ 410,088   | \$ 6,581     |
| Latin Healthcare Fund                  | 11/28/2000        | \$ 0         | \$ 921,813   |
| Multiplex, Inc., Pfd., Series C        | 2/22/2001         | \$ 5,000,001 | \$ 0         |
| Peachtree Leadscope LLC, Class A and B | 6/30/2000         | \$ 712,054   | \$ 0         |
| Peachtree Leadscope LLC, Class C       | 4/30/2002         | \$ 3,000,000 | \$ 3,250,000 |
| Peachtree Open Networks                | 10/5/2000         | \$ 892,599   | \$ 0         |
| Peachtree Velquest                     | 9/14/2000         | \$ 494,382   | \$ 0         |
| Rocket Ventures II                     | 7/20/1999         | \$10,015,342 | \$ 0         |
| Sensable Technologies, Inc.            | 10/15/2004        | \$ 0         | \$ 0         |
| Vennworks                              | 1/6/2000          | \$ 5,000,000 | \$ 0         |

## Additional Disclosure Related to Derivative Instruments

### The Effect of Derivative Instruments on the Statement of Operations for the Six Months Ended April 30, 2011

#### Amount of Realized Gain or (Loss) on Derivatives Recognized in Income

|                            | Forward<br>Currency<br>Contracts |
|----------------------------|----------------------------------|
| Foreign exchange contracts | \$262,844                        |

#### Change in Unrealized Appreciation (Depreciation) on Derivatives Recognized in Income

|                            | Forward<br>Currency<br>Contracts |
|----------------------------|----------------------------------|
| Foreign exchange contracts | \$53,525                         |

### Other

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets, liabilities, expenses and revenues reported in the financial statements. Actual results could differ from those estimated.

### 3. SHARES OF BENEFICIAL INTEREST

The following tables summarize share activity:

| Class A Shares:  | Six Months Ended<br>4/30/2011 |                 | Year Ended<br>10/31/2010 |                 |
|--|-------------------------------|-----------------|--------------------------|-----------------|
|  | Shares                        | Amount          | Shares                   | Amount          |
| Shares sold  | 45,898,665                    | \$ 251,638,348  | 108,384,912              | \$ 510,485,496  |
| Shares issued to shareholders in payment of distributions declared | 2,507,026                     | 13,688,361      | 801,053                  | 3,756,940       |
| Shares redeemed  | (78,048,008)                  | (428,485,431)   | (150,272,322)            | (709,884,481)   |
| NET CHANGE RESULTING FROM CLASS A SHARE TRANSACTIONS               | (29,642,317)                  | \$(163,158,722) | (41,086,357)             | \$(195,642,045) |

| Class B Shares:  | Six Months Ended<br>4/30/2011 |                | Year Ended<br>10/31/2010 |                 |
|--|-------------------------------|----------------|--------------------------|-----------------|
|  | Shares                        | Amount         | Shares                   | Amount          |
| Shares sold  | 2,429,874                     | \$ 12,575,438  | 4,936,393                | \$ 22,093,225   |
| Shares issued to shareholders in payment of distributions declared | 44,017                        | 227,570        | —                        | —               |
| Shares redeemed  | (17,646,137)                  | (91,493,474)   | (50,285,191)             | (223,072,532)   |
| NET CHANGE RESULTING FROM CLASS B SHARE TRANSACTIONS               | (15,172,246)                  | \$(78,690,466) | (45,348,798)             | \$(200,979,307) |

| <b>Class C Shares:</b>   | <b>Six Months Ended<br/>4/30/2011</b> |                 | <b>Year Ended<br/>10/31/2010</b> |                 |
|--|---------------------------------------|-----------------|----------------------------------|-----------------|
|  | <b>Shares</b>                         | <b>Amount</b>   | <b>Shares</b>                    | <b>Amount</b>   |
| Shares sold  | 5,848,358                             | \$ 30,257,772   | 13,712,395                       | \$ 61,221,439   |
| Shares issued to shareholders in payment of distributions declared | 122,226                               | 631,908         | —                                | —               |
| Shares redeemed  | (20,154,580)                          | (104,378,650)   | (40,828,794)                     | (182,157,622)   |
| NET CHANGE RESULTING FROM CLASS C SHARE TRANSACTIONS               | (14,183,996)                          | \$ (73,488,970) | (27,116,399)                     | \$(120,936,183) |

| <b>Class R Shares:</b>   | <b>Six Months Ended<br/>4/30/2011</b> |                 | <b>Year Ended<br/>10/31/2010</b> |                 |
|--|---------------------------------------|-----------------|----------------------------------|-----------------|
|  | <b>Shares</b>                         | <b>Amount</b>   | <b>Shares</b>                    | <b>Amount</b>   |
| Shares sold  | 23,821,696                            | \$ 131,216,014  | 34,634,870                       | \$ 164,263,116  |
| Shares issued to shareholders in payment of distributions declared | 4,030,627                             | 22,047,532      | 1,293,247                        | 6,065,577       |
| Shares redeemed  | (58,609,235)                          | (322,647,882)   | (98,552,433)                     | (467,540,468)   |
| NET CHANGE RESULTING FROM CLASS R SHARE TRANSACTIONS               | (30,756,912)                          | \$(169,384,336) | (62,624,316)                     | \$(297,211,775) |
| NET CHANGE RESULTING FROM TOTAL FUND SHARE TRANSACTIONS            | (89,755,471)                          | \$(484,722,494) | (176,175,870)                    | \$(814,769,310) |

## Redemption Fee

The Fund's Class R Shares imposes a redemption fee of 0.20% on the redemption price of the Fund's Class R Shares redeemed, if such shares were purchased after February 1, 1985. The redemption fee is applied to the Fund's Class R Shares expenses for providing redemption services, including, but not limited to: transfer agent fees, postage, printing, telephone and related employment costs. Any excess fee proceeds are added to the Fund's assets. Shares acquired through employer-sponsored retirement plans will not be subject to the redemption fee. However, if shares are purchased for a retirement plan account through a broker, financial institution or other intermediary maintaining an omnibus account for the shares, the waiver may not apply. In addition, this waiver does not apply to individual retirement accounts, such as Traditional, Roth and SEP-IRAs. For the year ended October 31, 2010, redemption fees of \$55,592 were allocated to cover the cost of redemptions. For the six months ended April 30, 2011, redemption fees of \$61,218 were allocated to cover the cost of redemptions.

## 4. FEDERAL TAX INFORMATION

At April 30, 2011, the cost of investments for federal tax purposes was \$5,683,112,494. The net unrealized appreciation of investments for federal tax purposes excluding any unrealized appreciation resulting from changes in foreign currency exchange rates was \$2,539,817,200. This consists of net unrealized appreciation from investments for those securities having an excess of value over cost of \$2,745,291,870 and net unrealized depreciation from investments for those securities having an excess of cost over value of \$205,474,670.

At October 31, 2010, the Fund had a capital loss carryforward of \$704,260,190 which will reduce the Fund's taxable income arising from future net realized gains on investments, if any, to the extent permitted by the Code and thus will reduce the amount of distributions to shareholders which would otherwise be necessary to relieve the Fund of any liability for federal income tax. Pursuant to the Code, such capital loss carryforward will expire in 2017.

Under the recently enacted Regulated Investment Company Modernization Act of 2010, the Fund will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. However, any losses incurred during those future years will be required to be utilized prior to the losses incurred in pre-enactment tax years. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term as under previous law.

**5. INVESTMENT ADVISER FEE AND OTHER TRANSACTIONS WITH AFFILIATES**

**Investment Adviser Fee**

Federated Equity Management Company of Pennsylvania is the Fund's investment adviser (the "Adviser"). The advisory agreement between the Fund and the Adviser provides for an annual fee equal to 1.425% of the Fund's average daily net assets. Subject to the terms described in the Expense Limitation note, the Adviser may voluntarily choose to waive any portion of its fee. For the six months ended April 30, 2011, the Adviser voluntarily waived \$5,391,393 of its fee.

Certain of the Fund's assets are managed by Federated Global Investment Management Corp. (the "Sub-Adviser"). Under the terms of a sub-advisory agreement between the Adviser and the Sub-Adviser, the Sub-Adviser receives an allocable portion of the Fund's adviser fee. The fee is paid by the Adviser out of its resources and is not an incremental Fund expense. For the six months ended April 30, 2011, the Sub-Adviser earned a fee of \$42,711,234.

**Administrative Fee**

Federated Administrative Services (FAS), under the Administrative Services Agreement, provides the Fund with administrative personnel and services. The fee paid to FAS is based on the average aggregate daily net assets of certain Federated funds as specified below:

| <b>Administrative Fee</b> | <b>Average Aggregate Daily Net Assets of the Federated Funds</b> |
|---------------------------|--|
| 0.150%                    | on the first \$5 billion   |
| 0.125%                    | on the next \$5 billion  |
| 0.100%                    | on the next \$10 billion   |
| 0.075%                    | on assets in excess of \$20 billion                              |

The administrative fee received during any fiscal year shall be at least \$150,000 per portfolio and \$40,000 per each additional class of Shares. Subject to the terms described in the Expense Limitation note, FAS may voluntarily choose to waive any portion of its fee. For the six months ended April 30, 2011, the net fee paid to FAS was 0.076% of average daily net assets of the Fund. FAS waived \$73,920 of its fee.

## Distribution Services Fee

The Fund has adopted a Distribution Plan (the "Plan") pursuant to Rule 12b-1 under the Act. Under the terms of the Plan, the Fund will compensate Federated Securities Corp. (FSC), the principal distributor, from the daily net assets of the Fund's Class A Shares, Class B Shares, Class C Shares and Class R Shares to finance activities intended to result in the sale of these shares. The Plan provides that the Fund may incur distribution expenses at the following percentages of average daily net assets annually, to compensate FSC:

| Share Class Name | Percentage of Average Daily Net Assets of Class |
|------------------|---|
| Class A Shares   | 0.25%   |
| Class B Shares   | 0.75%   |
| Class C Shares   | 0.75%   |
| Class R Shares   | 0.50%   |

Subject to the terms described in the Expense Limitation note, FSC may voluntarily choose to waive any portion of its fee. For the six months ended April 30, 2011, FSC voluntarily waived \$8,803,649 of its fee. When FSC receives fees, it may pay some or all of them to financial intermediaries whose customers purchase shares. For the six months ended April 30, 2011, FSC retained \$2,983,693 of fees paid by the Fund.

## Sales Charges

Front-end sales charges and contingent deferred sales charges (CDSC) do not represent expenses of the Fund. They are deducted from the proceeds of sales of Fund shares prior to investment or from redemption proceeds prior to remittance, as applicable. For the six months ended April 30, 2011, FSC retained \$89,996 in sales charges from the sale of Class A Shares. FSC also retained \$2,550 of CDSC relating to redemptions of Class A Shares and \$3,726 relating to redemptions of Class C Shares.

## Shareholder Services Fee

The Fund may pay fees ("Service Fees") up to 0.25% of the average daily net assets of the Fund's Class A Shares, Class B Shares, Class C Shares and Class R Shares to financial intermediaries or to Federated Shareholder Services Company (FSSC) for providing services to shareholders and maintaining shareholder accounts. Financial intermediaries may include a company affiliated with management of Federated Investors, Inc. A financial intermediary affiliated with management of Federated Investors, Inc. received \$8,367 of Service Fees for the six months ended April 30, 2011. Subject to the terms described in the Expense Limitation note, FSSC may voluntarily reimburse the Fund for Service Fees. For the six months ended April 30, 2011, FSSC voluntarily reimbursed \$168,588 of Service Fees. For the six months ended April 30, 2011, FSSC received \$2,595,741 of fees paid by the Fund.

## Commitments and Contingencies

In the course of pursuing its investment objective, the Fund sometimes invests in limited partnerships and limited liability companies. These entities often require the Fund to commit to a total dollar amount to be invested. The actual investments are usually made in installments over a period of time. At April 30, 2011, the Fund had total commitments to limited partnerships and limited liability companies of \$45,173,400; of this amount, \$41,414,996 was actually invested by the Fund leaving the Fund contingently liable for additional investments of \$3,758,404.

## Expense Limitation

The Adviser and its affiliates (which may include FSC, FAS and FSSC) have voluntarily agreed to waive their fees and/or reimburse expenses so that the total annual fund operating expenses (as shown in the financial highlights, excluding dividends and other expenses related to short sales) paid by the Fund's Class A Shares, Class B Shares, Class C Shares and Class R Shares (after the voluntary waivers and/or reimbursements) will not exceed 1.95%, 2.50%, 2.50% and 1.95% (the "Fee Limit"), respectively, through the later of (the "Termination Date"): (a) December 31, 2011; or (b) the date of the Fund's next effective Prospectus. While the Adviser and its affiliates currently do not anticipate terminating or increasing these arrangements prior to the Termination Date, these arrangements may only be terminated or the Fee Limit increased prior to the Termination Date with the agreement of the Trustees.

## Interfund Transactions

During the six months ended April 30, 2011, the Fund engaged in purchase and sale transactions with funds that have a common investment adviser (or affiliated investment advisers), common Directors/Trustees, and/or common Officers. These purchase and sale transactions complied with Rule 17a-7 under the Act and amounted to \$3,708,509 and \$28,367,096, respectively.

## General

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

## Transactions Involving Affiliated Companies and Affiliated Holdings

An affiliated company is a company in which the Fund has ownership of at least 5% of the voting shares. Transactions with affiliated companies during the six months ended April 30, 2011, were as follows:

| Affiliates                         | Balance of<br>Shares Held<br>10/31/2010 | Purchases/<br>Additions | Sales/<br>Reductions | Balance of<br>Shares Held<br>4/30/2011 | Value         | Dividend/<br>Interest<br>Income |
|------------------------------------|---|-------------------------|----------------------|--|---------------|---------------------------------|
| Alkermes, Inc.                     | 9,722,273                               | —                       | 3,722,273            | 6,000,000                              | \$ 86,520,000 | \$ —                            |
| *Auxilium<br>Pharmaceuticals, Inc. | 3,093,592                               | —                       | 3,093,592            | —                                      | —             | —                               |
| *Brasil<br>Brokers Participacoes   | 9,858,127                               | —                       | 5,416,649            | 4,441,478                              | 24,420,789    | 514,048                         |
| *Cbeyond<br>Communications, Inc.   | 1,771,638                               | —                       | 1,771,638            | —                                      | —             | —                               |
| CETIP SA                           | 22,772,799                              | 2,002,201               | 3,514,000            | 21,261,000                             | 352,728,261   | 509,111                         |
| *Conceptus, Inc.                   | 3,634,700                               | —                       | 3,634,700            | —                                      | —             | —                               |
| Conceptus, Inc.                    | 1,339,286                               | —                       | —                    | 1,339,286                              | 20,665,183    | —                               |
| Conceptus, Inc.                    | 600,000                                 | —                       | —                    | 600,000                                | 9,258,000     | —                               |
| Cubist<br>Pharmaceuticals, Inc.    | 7,008,000                               | —                       | 2,758,000            | 4,250,000                              | 143,862,500   | —                               |
| Dexcom, Inc.                       | 5,042,865                               | —                       | 321,800              | 4,721,065                              | 78,605,732    | —                               |
| Dyax Corp.                         | 12,850,000                              | —                       | —                    | 12,850,000                             | 25,700,000    | —                               |
| *Endologix, Inc.                   | 5,198,050                               | —                       | 5,198,050            | —                                      | —             | —                               |
| *Endologix, Inc.                   | 3,555,556                               | —                       | —                    | 3,555,556                              | 28,266,670    | —                               |

| <b>Affiliates</b>                                | <b>Balance of<br/>Shares Held<br/>10/31/2010</b> | <b>Purchases/<br/>Additions</b> | <b>Sales/<br/>Reductions</b> | <b>Balance of<br/>Shares Held<br/>4/30/2011</b> | <b>Value</b>    | <b>Dividend/<br/>Interest<br/>Income</b> |
|--|--|---------------------------------|------------------------------|---|-----------------|--|
| ExamWorks Group Inc.                             | 2,227,383  | 4,457                           | —                            | 2,231,840                                       | 49,546,848      | —  |
| *Insulet Corp.                                   | 2,672,070  | —                               | 577,070                      | 2,095,000                                       | 45,021,550      | —  |
| *Insulet Corp., Conv.                            |  |                                 |                              |   |                 |  |
| Bond, 5.375, 6/15/2013                           | 27,670,000                                       | —                               | —                            | 27,670,000                                      | 34,027,736      | 743,631                                  |
| Progenics<br>Pharmaceuticals, Inc.               | 5,246,193  | —                               | —                            | 5,246,193                                       | 38,874,290      | —  |
| Protalix<br>Biotherapeutics, Inc.                | 3,000,000  | 1,302,393                       | —                            | 4,302,393                                       | 29,987,679      | —  |
| Repligen Corp.                                   | 2,998,043  | —                               | —                            | 2,998,043                                       | 12,052,133      | —  |
| Restoque Comercio e<br>Confecoos de<br>Roupas SA | 11,570,138                                       | —                               | 3,746,138                    | 7,824,000                                       | 92,702,365      | 2,085,571                                |
| TNS, Inc.  | 2,964,645  | —                               | —                            | 2,964,645                                       | 48,709,117      | —  |
| Vical, Inc.                                      | 9,330,475  | —                               | 1,714,747                    | 7,615,728                                       | 28,635,137      | —  |
| TOTAL OF<br>AFFILIATED<br>COMPANIES              | 154,125,833                                      | 3,309,051                       | 35,468,657                   | 121,966,227                                     | \$1,149,583,990 | \$3,852,361                              |

\* At April 30, 2011, the Fund no longer has ownership of at least 5% of the voting shares.

Affiliated holdings are mutual funds which are managed by the Adviser or an affiliate of the Adviser. The Adviser has agreed to reimburse the Fund for certain investment adviser fees as a result of transactions in other affiliated mutual funds. For the six months ended April 30, 2011, the Adviser reimbursed \$61,105. Transactions involving the affiliated holding during the six months ended April 30, 2011, were as follows:

| <b>Affiliate</b>   | <b>Balance of<br/>Shares Held<br/>10/31/2010</b> | <b>Purchases/<br/>Additions</b> | <b>Sales/<br/>Reductions</b> | <b>Balance of<br/>Shares Held<br/>4/30/2011</b> | <b>Value</b>  | <b>Dividend<br/>Income</b> |
|--|--|---------------------------------|------------------------------|---|---------------|----------------------------|
| Federated Prime Value<br>Obligations Fund,<br>Institutional Shares | 119,963,791                                      | 1,788,817,184                   | 1,212,894,553                | 695,886,422                                     | \$695,886,422 | \$67,076                   |

## 6. EXPENSE REDUCTION

The Fund directs portfolio trades to a broker that in turn pays a portion of the Fund's operating expenses. For the six months ended April 30, 2011, the Fund's expenses were reduced by \$2,011 under these arrangements.

## 7. INVESTMENT TRANSACTIONS

Purchases and sales of investments, excluding long-term U.S. government securities and short-term obligations, for the six months ended April 30, 2011, were as follows:

|           |                 |
|-----------|-----------------|
| Purchases | \$2,240,897,102 |
| Sales     | \$2,797,217,786 |

## 8. CONCENTRATION OF RISK

The Fund invests in securities of non-U.S. issuers. Political or economic developments may have an effect on the liquidity and volatility of portfolio securities and currency holdings.

At April 30, 2011, the diversification of countries was as follows:

| Country                | Percentage of Net Assets |
|------------------------|--------------------------|
| United States          | 63.2%                    |
| Brazil                 | 11.6%                    |
| Cayman Islands         | 4.6%                     |
| India                  | 3.2%                     |
| Ireland                | 3.0%                     |
| Netherlands            | 2.0%                     |
| Bermuda                | 1.7%                     |
| Canada                 | 1.6%                     |
| Spain                  | 1.5%                     |
| Israel                 | 0.9%                     |
| Singapore              | 0.9%                     |
| Chile                  | 0.8%                     |
| Isle of Man            | 0.7%                     |
| United Kingdom         | 0.7%                     |
| British Virgin Islands | 0.6%                     |
| Luxembourg             | 0.6%                     |
| Italy                  | 0.4%                     |
| Germany                | 0.3%                     |
| Indonesia              | 0.3%                     |
| China                  | 0.2%                     |
| Japan                  | 0.2%                     |
| Mexico                 | 0.2%                     |
| Switzerland            | 0.1%                     |

## **9. LINE OF CREDIT**

The Fund participates in a \$100,000,000 unsecured, uncommitted revolving line of credit (LOC) agreement with PNC Bank. The LOC was made available for extraordinary or emergency purposes, primarily for financing redemption payments. Borrowings are charged interest at a rate offered to the Fund by PNC Bank at the time of the borrowing. As of April 30, 2011, there were no outstanding loans. During the six months ended April 30, 2011, the Fund did not utilize the LOC.

## **10. INTERFUND LENDING**

Pursuant to an Exemptive Order issued by the Securities and Exchange Commission, the Fund, along with other funds advised by subsidiaries of Federated Investors, Inc., may participate in an interfund lending program. This program provides an alternative credit facility allowing the Fund to borrow from other participating affiliated funds. As of April 30, 2011, there were no outstanding loans. During the six months ended April 30, 2011, the program was not utilized.

## **11. LEGAL PROCEEDINGS**

Since February 2004, Federated Investors, Inc. and related entities (collectively, "Federated"), had been named as defendants in several lawsuits in the United States District Court for the Western District of Pennsylvania. These lawsuits had been consolidated into a single action alleging excessive advisory fees involving the Fund. Without admitting the validity of any claim, in April 2011, Federated reached a final settlement to resolve this lawsuit resulting in no material adverse effect on Federated or the Fund.

# Evaluation and Approval of Advisory Contract – May 2010

## **FEDERATED KAUFMANN FUND (THE “FUND”)**

The Fund’s Board reviewed the Fund’s investment advisory and subadvisory contracts at meetings held in May 2010. The Board’s decision regarding these contracts reflects the exercise of its business judgment on whether to continue the existing arrangements.

In this connection, the Federated funds’ Board had previously appointed a Senior Officer, whose duties include specified responsibilities relating to the process by which advisory fees are to be charged to a Federated fund. The Senior Officer has the authority to retain consultants, experts, or staff as may be reasonably necessary to assist in the performance of his duties, reports directly to the Board, and may be terminated only with the approval of a majority of the independent members of the Board. The Senior Officer prepared and furnished to the Board an independent, written evaluation that covered topics discussed below. The Board considered that evaluation, along with other information, in deciding to approve the advisory and subadvisory contracts.

During its review of these contracts, the Board considered compensation and benefits received by the Adviser and subadviser. This included the fees received for services provided to the Fund by other entities in the Federated organization and research services (if any) received by the Adviser from brokers that execute Federated fund trades, as well as advisory fees. The Board is also familiar with and considered judicial decisions concerning allegedly excessive investment advisory fees, which have indicated that the following factors may be relevant to an Adviser’s fiduciary duty with respect to its receipt of compensation from a fund: the nature and quality of the services provided by the Adviser, including the performance of the fund; the Adviser’s cost of providing the services; the extent to which the Adviser may realize “economies of scale” as a fund grows larger; any indirect benefits that may accrue to the Adviser and its affiliates as a result of the Adviser’s relationship with a fund; performance and expenses of comparable funds; and the extent to which the independent Board members are fully informed about all facts the Board deems relevant bearing on the Adviser’s services and fees. The Board further considered management fees (including any components thereof) charged to institutional and other clients of the Adviser and subadviser for what might be viewed as like services, and the cost to the Adviser and its affiliates of supplying services pursuant to the management fee agreements, excluding any intra-corporate profit and profit margins of the Adviser and its affiliates for supplying such services. The Board was aware of these factors and was guided by them in its review of the Fund’s advisory and subadvisory contracts to the extent it considered them to be appropriate and relevant, as discussed further below.

The Board considered and weighed these circumstances in light of its substantial accumulated experience in governing the Fund and working with Federated on matters relating to the Federated funds, and was assisted in its deliberations by independent legal counsel. Throughout the year, the Board has requested and received substantial and detailed information about the Fund and the Federated organization that was in addition to the extensive materials that comprise and accompany the Senior Officer's evaluation. Federated provided much of this information at each regular meeting of the Board, and furnished additional reports in connection with the particular meeting at which the Board's formal review of the advisory and subadvisory contracts occurred. Between regularly scheduled meetings, the Board also received information on particular matters as the need arose. Thus, the Board's consideration of the advisory and subadvisory contracts included review of the Senior Officer's evaluation, accompanying data and additional reports covering such matters as: the Adviser's and subadviser's investment philosophy, revenue, profitability, personnel and processes; investment and operating strategies; the Fund's short- and long-term performance (in absolute terms, both on a gross basis and net of expenses, as well as in relationship to its particular investment program and certain competitor or "peer group" funds and/or other benchmarks, as appropriate), and comments on the reasons for performance; the Fund's investment objectives; the Fund's expenses (including the advisory fee itself and the overall expense structure of the Fund, both in absolute terms and relative to similar and/or competing funds, with due regard for contractual or voluntary expense limitations); the use and allocation of brokerage commissions derived from trading the Fund's portfolio securities (if any); and the nature, quality and extent of the advisory and other services provided to the Fund by the Adviser and its affiliates. The Board also considered the preferences and expectations of Fund shareholders and their relative sophistication; the continuing state of competition in the mutual fund industry and market practices; the range of comparable fees for similar funds in the mutual fund industry; the Fund's relationship to the Federated family of funds which include a comprehensive array of funds with different investment objectives, policies and strategies which are available for exchange without the incurrence of additional sales charges; compliance and audit reports concerning the Federated funds and the Federated companies that service them (including communications from regulatory agencies), as well as Federated's responses to any issues raised therein; and relevant developments in the mutual fund industry and how the Federated funds and/or Federated are responding to them. The Board also considered that the longevity and experience of the Fund's portfolio management team and their unique approach to investing may limit the utility of comparisons to other equity mutual funds. The Board's evaluation process is evolutionary. The criteria considered and the emphasis placed on relevant criteria change in recognition of changing circumstances in the mutual fund marketplace.

With respect to the Fund's performance and expenses in particular, the Board has found the use of comparisons to other mutual funds with comparable investment programs to be relevant, given the high degree of competition in the mutual fund business. The Board focused on comparisons with other similar mutual funds more heavily than non-mutual fund products or services because it is believed that they are more relevant. For example, other mutual funds are the products most like the Fund, they are readily available to Fund shareholders as alternative investment vehicles, and they are the type of investment vehicle in fact chosen and maintained by the Fund's investors. The range of their fees and expenses therefore appears to be a generally reliable indication of what consumers have found to be reasonable in the precise marketplace in which the Fund competes. The Fund's ability to deliver competitive performance when compared to its peer group was a useful indicator of how the Adviser is executing the Fund's investment program, which in turn assisted the Board in reaching a conclusion that the nature, extent, and quality of the Adviser's investment management services were such as to warrant continuation of the advisory contract. In this regard, the Senior Officer has reviewed Federated's fees for providing advisory services to products outside the Federated family of funds (e.g., institutional and separate accounts). He concluded that mutual funds and institutional accounts are inherently different products. Those differences include, but are not limited to, different types of targeted investors; being subject to different laws and regulations; different legal structures; different average account sizes; different associated costs; different portfolio management techniques made necessary by different cash flows; and portfolio manager time spent in review of securities pricing. The Senior Officer did not consider these fee schedules to be determinative in judging the appropriateness of mutual fund advisory contracts.

The Senior Officer reviewed reports compiled by Federated, using data supplied by independent fund ranking organizations, regarding the performance of, and fees charged by, other mutual funds, noting his view that comparisons to fund peer groups are relevant in judging the reasonableness of proposed fees.

For the periods covered by the report, the Fund's performance for the five-year period was above the median of the relevant peer group, and the Fund's performance fell below the median of the relevant peer group for the one and three-year periods. The Board discussed the Fund's performance with the Adviser and recognized the efforts being undertaken by the Adviser. The Board will continue to monitor these efforts and the performance of the Fund.

The Board also received financial information about Federated, including reports on the compensation and benefits Federated derived from its relationships with the Federated funds. These reports covered not only the fees under the advisory contracts, but also fees received by Federated's subsidiaries for providing other services to the Federated funds under separate contracts (e.g., for serving as the Federated funds' administrator). The reports also discussed any indirect benefit Federated may derive from its receipt of research

services from brokers who execute Federated fund trades. In addition, the Board considered the fact that, in order for a fund to be competitive in the marketplace, Federated and its affiliates frequently waived fees and/or reimbursed expenses and have disclosed to fund investors and/or indicated to the Board their intention to do so in the future, where appropriate. Moreover, the Board receives regular reports regarding the institution or elimination of these voluntary waivers.

Federated furnished reports, requested by the Senior Officer, that reported revenues on a fund-by-fund basis and made estimates of the allocation of expenses on a fund-by-fund basis, using allocation methodologies specified by the Senior Officer. The Senior Officer noted that, although they may apply consistent allocation processes, the inherent difficulties in allocating costs (and the unavoidable arbitrary aspects of that exercise) and the lack of consensus on how to allocate those costs may render such allocation reports unreliable. The allocation reports were considered in the analysis by the Board but were determined to be of limited use.

The Board and the Senior Officer also reviewed a report compiled by Federated comparing profitability information for Federated to other publicly held fund management companies. In this regard, the Senior Officer noted the limited availability of such information, but nonetheless concluded that Federated's profit margins did not appear to be excessive and the Board agreed.

The Senior Officer's evaluation also discussed the notion of possible realization of "economies of scale" as a fund grows larger. The Board considered in this regard that the Adviser has made significant and long-term investments in areas that support all of the Federated funds, such as personnel and processes for the portfolio management, compliance, and risk management functions; and systems technology; and that the benefits of these efforts (as well as any economies, should they exist) were likely to be enjoyed by the fund complex as a whole. Finally, the Board also noted the absence of any applicable regulatory or industry guidelines on this subject, which (as discussed in the Senior Officer's evaluation) is compounded by the lack of any common industry practice or general pattern with respect to structuring fund advisory fees with "breakpoints" that serve to reduce the fee as the fund attains a certain size. The Senior Officer did not recommend institution of breakpoints in pricing Federated's fund advisory services at this time. In this regard, the Senior Officer's evaluation noted that the Board is aware that the Fund is a relatively more expensive fund for the Adviser to manage than other Federated equity funds and that the Fund has also been significantly and consistently above median in its investment performance on a longer term basis. The Board agreed to monitor future developments and review changes in industry practices or competitive initiatives.

It was noted in the materials for the Board meeting that for the period covered by the report, the Fund's investment advisory fee, after waivers and expense reimbursements, if any, was above the median of the relevant peer group. The Board reviewed the fees and other expenses of the Fund with the Adviser and was satisfied that the overall expense structure of the Fund remained competitive. The Board will continue to monitor advisory fees and other expenses borne by the Fund.

The Senior Officer's evaluation noted his belief that the information and observations contained in his evaluation supported a finding that the proposed management fees are reasonable, and that Federated appeared to provide appropriate administrative services to the Fund for the fees paid. Under these circumstances, no changes were recommended to, and no objection was raised to, the continuation of the Fund's advisory and subadvisory contracts. The Board concluded that the nature, quality and scope of services provided the Fund by the Adviser and its affiliates were satisfactory.

In its decision to continue an existing investment advisory contract, the Board was mindful of the potential disruptions of the Fund's operations and various risks, uncertainties and other effects that could occur as a result of a decision to terminate or not renew an advisory contract. In particular, the Board recognized that many shareholders have invested in the Fund on the strength of the Adviser's industry standing and reputation and with the expectation that the Adviser will have a continuing role in providing advisory services to the Fund. Thus, the Board's approval of the advisory contract reflected the fact that it is the shareholders who have effectively selected the Adviser by virtue of having invested in the Fund.

The Board based its decision to approve the advisory and subadvisory contracts on the totality of the circumstances and relevant factors and with a view to past and future long-term considerations. Not all of the factors and considerations identified above were necessarily relevant to the Fund, nor did the Board consider any one of them to be determinative. With respect to the factors that were relevant, the Board's decision to approve the contract reflects its determination that Federated's performance and actions provided a satisfactory basis to support the decision to continue the existing arrangements.

## Voting Proxies on Fund Portfolio Securities

A description of the policies and procedures that the Fund uses to determine how to vote proxies, if any, relating to securities held in the Fund's portfolio is available, without charge and upon request, by calling 1-800-341-7400. A report on "Form N-PX" of how the Fund voted any such proxies during the most recent 12-month period ended June 30 is available from Federated's website at FederatedInvestors.com. To access this information from the home page, select "View All" next to "Find Products." Select a fund name and share class, if applicable, to go to the Fund Overview page. On the Fund Overview page, select the "Documents" tab. At the bottom of that page, select "Proxy Voting Record Report (Form N-PX)." Form N-PX filings are also available at the SEC's website at [www.sec.gov](http://www.sec.gov).

## Quarterly Portfolio Schedule

The Fund files with the SEC a complete schedule of its portfolio holdings, as of the close of the first and third quarters of its fiscal year, on "Form N-Q." These filings are available on the SEC's website at [www.sec.gov](http://www.sec.gov) and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. (Call 1-800-SEC-0330 for information on the operation of the Public Reference Room.) You may also access this information from the "Products" section of Federated's website at FederatedInvestors.com. From the home page, select "View All" next to "Find Products." Select a fund name and share class, if applicable, to go to the Fund Overview page. On the Fund Overview page, select the "Documents" tab. At the bottom of that page, select "Form N-Q."

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

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

**IMPORTANT NOTICE ABOUT FUND DOCUMENT DELIVERY**

In an effort to reduce costs and avoid duplicate mailings, the Fund(s) intend to deliver a single copy of certain documents to each household in which more than one shareholder of the Fund(s) resides (so-called "householding"), as permitted by applicable rules. The Fund's "householding" program covers its/their Prospectus and Statement of Additional Information, and supplements to each, as well as Semi-Annual and Annual Shareholder Reports and any Proxies or information statements. Shareholders must give their written consent to participate in the "householding" program. The Fund is also permitted to treat a shareholder as having given consent ("implied consent") if (i) shareholders with the same last name, or believed to be members of the same family, reside at the same street address or receive mail at the same post office box, (ii) the Fund gives notice of its intent to "household" at least sixty (60) days before it begins "householding" and (iii) none of the shareholders in the household have notified the Fund(s) or their agent of the desire to "opt out" of "householding." Shareholders who have granted written consent, or have been deemed to have granted implied consent, can revoke that consent and opt out of "householding" at any time: shareholders who purchased shares through an intermediary should contact their representative; other shareholders may call the Fund at 1-800-341-7400.

# Notes

# Federated<sup>®</sup>

Federated Kaufmann Fund  
Federated Investors Funds  
4000 Ericsson Drive  
Warrendale, PA 15086-7561

Contact us at **FederatedInvestors.com**  
or call 1-800-341-7400.

Federated Securities Corp., Distributor

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