

# Annual Shareholder Report

January 31, 2019

Share Class | Ticker

R | FIGKX

Institutional | FIGTX

Service | FIGIX

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## Federated U.S. Government Securities Fund: 2-5 Years

*Fund Established 1983*

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### IMPORTANT NOTICE REGARDING REPORT DELIVERY

Beginning on January 1, 2021, as permitted by regulations adopted by the Securities and Exchange Commission, paper copies of the Fund's shareholder reports like this one will no longer be sent by mail, unless you specifically request paper copies of the reports from the Fund or from your financial intermediary, such as a broker-dealer or bank. Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive shareholder reports and other communications from the Fund or your financial intermediary electronically by contacting your financial intermediary (such as a broker-dealer or bank); other shareholders may call the Fund at 1-800-341-7400, Option 4.

You may elect to receive all future reports in paper free of charge. You can inform the Fund or your financial intermediary that you wish to continue receiving paper copies of your shareholder reports by contacting your financial intermediary (such as a broker-dealer or bank); other shareholders may call the Fund at 1-800-341-7400, Option 4. Your election to receive reports in paper will apply to all funds held with the Fund complex or your financial intermediary.

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**J. Christopher  
Donahue**

*President*

Federated U.S. Government  
Securities Fund: 2-5  
Years

## Letter from the President

Dear Valued Shareholder,

I am pleased to present the Annual Shareholder Report for your fund covering the period from February 1, 2018 through January 31, 2019. This report includes Management's Discussion of Fund Performance, a complete listing of your fund's holdings, performance information and financial statements along with other important fund information.

In addition, our website, [FederatedInvestors.com](http://FederatedInvestors.com), offers easy access to Federated resources that include timely fund updates, economic and market insights from our investment strategists, and financial planning tools.

Thank you for investing with Federated. I hope you find this information useful and look forward to keeping you informed.

Sincerely,

A handwritten signature in cursive script that reads "J. Christopher Donahue". The signature is written in dark ink and is positioned above the printed name.

J. Christopher Donahue, President

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# Management's Discussion of Fund Performance (unaudited)

The total return of Federated U.S. Government Securities Fund: 2-5 Years (the "Fund"), based on net asset value for the 12-month reporting period ended January 31, 2019, was 1.54% for Class R Shares, 2.19% for Institutional Shares and 2.05% for Service Shares. The 2.19% total return of the Institutional Shares for the reporting period consisted of 2.10% in taxable dividends and 0.09% of price appreciation in the net asset value of the shares. The ICE BofAML 3-5 Year US Treasury Index (BAML3-5T),<sup>1</sup> the Fund's broad-based securities market index, returned 2.88% during the same period. The total return of the Morningstar Short Government Funds Average (MSGFA),<sup>2</sup> a peer group average for the Fund, was 1.84% during the same period. The Fund's and the MSGFA's total returns for the most recently completed fiscal year reflected actual cash flows, transaction costs and other expenses, which were not reflected in the total return of the BAML3-5T.

During the reporting period, the Fund's investment strategy focused on (a) duration<sup>3</sup> (i.e., the price sensitivity of the portfolio to changes in interest rates); (b) yield curve positioning (i.e., selection of similar securities with different maturities); (c) security and sector selection (i.e., allocation of the portfolio among securities with similar issuers); and (d) derivatives.<sup>4</sup> These were the most significant factors affecting the Fund's performance relative to the BAML3-5T.

The following discussion will focus on the performance of the Fund's Institutional Shares.

## **MARKET OVERVIEW**

Most of the reporting period was classified by strong domestic economic numbers, high business and consumer confidence, rising interest rates and equity prices. However, in the beginning of the fourth quarter of 2018, the Federal Reserve (the "Fed") hinted at a more aggressive or longer duration hiking cycle than what the market was expecting. The Fed hiked overnight interest rates four times in 2018 to a range of 2.25% to 2.50%. These rates were at the low end of their range of neutral interest rates where, theoretically, the economy produces the desired level of output and inflation. Some Fed members discussed moving the overnight rate into the restrictive territory if the economy continued to perform at such a brisk pace. This discussion of a more aggressive increase, along with a dramatic slowing of the Chinese and European economies, took markets by surprise. Equities and other risk markets sold off aggressively. Stocks fell near 20% from the highs reached in mid-2018. Oil sold off 45% during the fourth quarter of 2018. Spreads on corporate debt widened, and financial conditions tightened. However, as the calendar turned to 2019, the Fed walked back its aggressive rhetoric from October, reassuring markets that it was not on a preset course to tighten monetary policy, but would follow a data dependent approach.

Given the slowdown overseas and the sizable economic risk emanating from U.S./China trade negotiations and “Brexit” (UK exiting the European Union), the Fed intends to be patient adjusting monetary policy, let the aforementioned events play out and then react to the resulting economic environment in either direction. Risk markets rallied on the change in Fed communication, retracing much of the sell-off. Bonds retained much of their gains as Fed hikes had been priced out of the market.

During the reporting period, interest rates were mixed across the U.S. Treasury curve. The 2-year U.S. Treasury yield rose 32 basis points while the 5-year U.S. Treasury yield decreased by 8 basis points.<sup>5</sup> Yields on 5-year Treasury Inflation-Protected Securities (TIPS) rose 25 basis points and 5-year breakeven rates – the yield difference between 5-year U.S. Treasury bonds and 5-year TIPS – finished the reporting period at 1.72%.

## **DURATION**

The Fund had less interest rate risk (i.e., a shorter average duration) than the BAML3-5T for most of the reporting period, anticipating that interest rates would rise. As interest rates rose into the fall of 2018, the portfolio moved closer to BAML3-5T’s duration. The Fund’s dollar-weighted average duration at the end of the reporting period was 3.6 years versus the BAML3-5T at 3.7 years. For the reporting period, duration added to Fund performance relative to the BAML3-5T.

## **YIELD CURVE**

The yield curve flattened (i.e., shorter maturity bonds experienced larger interest rate increases relative to longer maturity bonds). The Fund’s yield curve flattening position relative to the BAML3-5T at the beginning of the reporting period, and subsequent neutral positioning for most of the reporting period, added to Fund performance.

## **SECURITY AND SECTOR SELECTION**

The Fund had positions in U.S. Treasuries, TIPS and agency debt and agency mortgage-backed securities (MBS).<sup>6</sup> TIPS exposure did not add or subtract from Fund performance. The portfolio exited the TIPS sector during early fall 2018. Agency debt and MBS offer higher yields than U.S. Treasuries; however, they underperformed during the risk-off episode in the fourth quarter. On the whole, security and sector selection subtracted from Fund performance versus the BAML3-5T during the reporting period.

## **DERIVATIVES**

The Fund used U.S. Treasury futures and options to hedge duration, yield curve exposure and agency MBS exposure. These instruments added to Fund performance, especially in the fourth quarter of 2018.

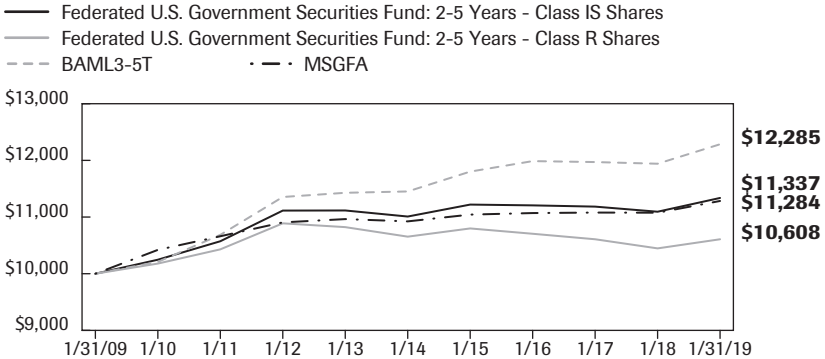
- 1 *Please see the footnotes to the line graph under “Fund Performance and Growth of a \$10,000 Investment” below for the definition of, and more information about, the BAML3-5T.*
- 2 *Please see the footnotes to the line graph under “Fund Performance and Growth of a \$10,000 Investment” below for the definition of, and more information about, the MSGFA.*
- 3 *Duration is a measure of a security’s price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than other securities of shorter durations.*
- 4 *The Fund’s use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional instruments.*
- 5 *Bond prices are sensitive to changes in interest rates, and a rise in interest rates can cause a decline in their prices.*
- 6 *The value of some mortgage-backed securities may be particularly sensitive to changes in the prevailing interest rates, and although the securities are generally supported by some form of government or private insurance, there is no assurance that private guarantors or insurers will meet their obligations.*

## FUND PERFORMANCE AND GROWTH OF A \$10,000 INVESTMENT

The graph below illustrates the hypothetical investment of \$10,000<sup>1</sup> in Federated U.S. Government Securities Fund: 2-5 Years from January 31, 2009 to January 31, 2019 compared to the ICE BofAML 3-5 Year US Treasury Index (BAML3-5T)<sup>2</sup> and the Morningstar Short Government Funds Average (MSGFA).<sup>3</sup> The Average Annual Total Return table shows returns for each class averaged over the stated periods.

### GROWTH OF A \$10,000 INVESTMENT

#### Growth of \$10,000 as of January 31, 2019



The fund offers multiple share classes whose performance may be greater than or less than its other share class(es) due to differences in sales charges and expenses. See the Average Annual Total Return table below for the returns of additional classes not shown in the line graph above.

#### Average Annual Total Returns for the Period Ended 1/31/2019

	1 Year	5 Years	10 Years
<b>Class R Shares</b>	1.54%	-0.09%	0.59%
<b>Institutional Shares</b>	2.19%	0.59%	1.26%
<b>Service Shares</b>	2.05%	0.36%	1.03%
BAML3-5T	2.88%	1.41%	2.08%
MSGFA	1.84%	0.72%	1.28%

**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. Returns shown do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Mutual funds are not obligations of or guaranteed by any bank and are not federally insured.**

- 1 *The Fund's performance assumes the reinvestment of all dividends and distributions. The BAML3-5T and MSGFA have been adjusted to reflect reinvestment of dividends on securities in the index and the average.*
- 2 *The BAML3-5T is a subset of ICE BofAML US Treasury Index including all securities with a remaining term to final maturity greater than or equal to 3 years and less than 5 years. ICE BofAML US Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market. The BAML3-5T is not adjusted to reflect sales charges, expenses or other fees that the Securities and Exchange Commission requires to be reflected in the Fund's performance. The index is unmanaged and, unlike the Fund, is not affected by cash flows. It is not possible to invest directly in an index.*
- 3 *Morningstar figures represent the average of the total returns reported by all the funds designated by Morningstar as falling into the respective category indicated. They do not reflect sales charges. The Morningstar figures in the Growth of \$10,000 line graph are based on historical return information published by Morningstar and reflect the return of the funds comprising the category in the year of publication. Because the funds designated by Morningstar as falling into the category can change over time, the Morningstar figures in the line graph may not match the Morningstar figures in the Average Annual Total Returns table, which reflect the return of the funds that currently comprise the category.*



# Portfolio of Investments Summary Tables (unaudited)

At January 31, 2019, the Fund's portfolio composition<sup>1</sup> was as follows:

<b>Portfolio Composition</b>	<b>Percentage of Total Net Assets</b>
U.S. Treasury Securities	66.4%
Government Agency	21.2%
Mortgage-Backed Securities	8.2%
Collateralized Mortgage Obligations	3.2%
Derivative Contracts <sup>2,3</sup>	0.0%
Cash Equivalents <sup>4</sup>	0.4%
Other Assets and Liabilities—Net <sup>5</sup>	0.6%
<b>TOTAL</b>	<b>100.0%</b>

At January 31, 2019, the Fund's effective maturity schedule<sup>6</sup> was as follows:

<b>Securities With an Effective Maturity of:</b>	<b>Percentage of Total Net Assets</b>
Less than 2 Years	9.8%
2-5 Years	88.0%
Greater than 5 Years	1.2%
Derivative Contracts <sup>2,3</sup>	0.0%
Cash Equivalents <sup>4</sup>	0.4%
Other Assets and Liabilities—Net <sup>5</sup>	0.6%
<b>TOTAL</b>	<b>100.0%</b>

- 1 See the Fund's Prospectus and Statement of Additional Information for a description of the principal types of securities and derivative contracts in which the Fund invests.
- 2 Represents less than 0.1%.
- 3 Based upon net unrealized appreciation (depreciation) or value of the derivative contracts as applicable. Derivative contracts may consist of futures, forwards, options and swaps. The impact of a derivative contract on the Fund's performance may be larger than its unrealized appreciation (depreciation) or value may indicate. In many cases, the notional value or amount of a derivative contract may provide a better indication of the contract's significance to the portfolio. More complete information regarding the Fund's direct investments in derivative contracts, including unrealized appreciation (depreciation), value and notional values or amounts of such contracts, can be found in the table at the end of the Portfolio of Investments included in this Report.
- 4 Cash Equivalents include any investments in money market mutual funds and/or overnight repurchase agreements.
- 5 Assets, other than investments in securities and derivative contracts, less liabilities. See Statement of Assets and Liabilities.
- 6 For callable investments, "effective maturity" is the unexpired period until the earliest date the investment is subject to prepayment or repurchase by the issuer (and market conditions indicate that the issuer will prepay or repurchase the investment). For all other investments "effective maturity" is the unexpired period until final maturity.

# Portfolio of Investments

January 31, 2019

Principal Amount or Shares		Value
	U.S. TREASURIES—66.4%	
	<b>U.S. Treasury Notes—66.4%</b>	
\$10,000,000	1.625%, 8/15/2022	\$ 9,725,559
12,500,000	1.750%, 3/31/2022	12,240,039
10,000,000	1.750%, 5/15/2022	9,783,221
11,000,000	2.125%, 12/31/2021	10,904,609
10,000,000	2.625%, 6/30/2023	10,077,096
20,000,000	2.750%, 9/15/2021	20,156,406
18,000,000	2.750%, 4/30/2023	18,224,611
10,000,000	2.750%, 7/31/2023	10,132,282
10,000,000	2.750%, 8/31/2023	10,137,072
10,000,000	2.875%, 10/31/2020	10,064,906
15,000,000	2.875%, 11/15/2021	15,173,087
13,000,000	2.875%, 9/30/2023	13,248,513
10,000,000	2.875%, 10/31/2023	10,193,220
10,000,000	2.875%, 11/30/2023	10,201,684
	TOTAL U.S. TREASURIES (IDENTIFIED COST \$167,663,369)	170,262,305
	COLLATERALIZED MORTGAGE OBLIGATIONS—3.2%	
	<b>Government National Mortgage Association—3.2%</b>	
3,352,985	REMIC, Series 2011-135, Class QE, 2.000%, 6/16/2041	3,259,820
5,036,004	REMIC, Series 2014-6, Class JA, 2.750%, 6/20/2042	5,017,970
	TOTAL COLLATERALIZED MORTGAGE OBLIGATIONS (IDENTIFIED COST \$8,187,720)	8,277,790
	GOVERNMENT AGENCIES—21.2%	
	<b>Federal Home Loan Bank System—15.3%</b>	
3,950,000	1.840%, 10/25/2023	3,801,128
5,000,000	2.950%, 9/17/2021	4,999,915
15,000,000	3.000%, 10/12/2021	15,188,640
5,000,000	3.375%, 9/8/2023	5,175,085
10,000,000	3.420%, 9/28/2023	10,003,960
	TOTAL	39,168,728
	<b>Federal National Mortgage Association—5.9%</b>	
15,000,000	2.875%, 9/12/2023	15,218,475
	TOTAL GOVERNMENT AGENCIES (IDENTIFIED COST \$53,775,002)	54,387,203

Principal Amount or Shares		Value
	MORTGAGE-BACKED SECURITIES—8.2%	
	<b>Federal Home Loan Mortgage Corporation—3.1%</b>	
\$ 2,941,846	3.500%, 5/1/2032	\$ 3,003,196
4,795,924	3.500%, 7/1/2033	4,886,947
	<b>TOTAL</b>	<b>7,890,143</b>
	<b>Federal National Mortgage Association—5.1%</b>	
3,062,419	3.500%, 6/1/2031	3,128,163
3,941,272	3.500%, 1/1/2033	4,018,492
2,871,181	3.500%, 2/1/2033	2,927,435
2,995,255	3.500%, 9/1/2033	3,054,876
	<b>TOTAL</b>	<b>13,128,966</b>
	<b>TOTAL MORTGAGE-BACKED SECURITIES (IDENTIFIED COST \$20,625,802)</b>	<b>21,019,109</b>
	INVESTMENT COMPANY—0.4%	
1,099,929	Federated Government Obligations Fund, Premier Shares, 2.30% <sup>1</sup> (IDENTIFIED COST \$1,099,929)	1,099,929
	<b>TOTAL INVESTMENT IN SECURITIES—99.4% (IDENTIFIED COST \$251,351,822)<sup>2</sup></b>	<b>255,046,336</b>
	<b>OTHER ASSETS AND LIABILITIES - NET—0.6%<sup>3</sup></b>	<b>1,455,065</b>
	<b>TOTAL NET ASSETS—100%</b>	<b>\$256,501,401</b>

At January 31, 2019, the Fund had the following outstanding futures contracts:

Description	Number of Contracts	Notional Value	Expiration Date	Value and Unrealized Appreciation
<sup>4</sup> United States Treasury Note 2-Year Long Futures	50	\$10,616,406	March 2019	\$10,820
<sup>4</sup> United States Treasury Note 5-Year Long Futures	125	\$14,357,422	March 2019	\$80,567
<b>UNREALIZED APPRECIATION ON FUTURES CONTRACTS</b>				<b>\$91,387</b>

Unrealized Appreciation on Futures Contracts is included in “Other Assets and Liabilities—Net.”

Affiliated fund holdings are investment companies which are managed by the Adviser or an affiliate of the Adviser. Transactions with the affiliated fund holding during the period ended January 31, 2019, were as follows:

	<b>Federated Government Obligations Fund, Premier Shares</b>
Balance of Shares Held 1/31/2018	10,622,543
Purchases/Additions	201,492,693
Sales/Reductions	(211,015,307)
Balance of Shares Held 1/31/2019	1,099,929
Value	\$ 1,099,929
Change in Unrealized Appreciation/Depreciation	N/A
Net Realized Gain/(Loss)	N/A
Dividend Income	\$ 86,588

1 *7-day net yield.*

2 *Also represents cost for federal tax purposes.*

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

4 *Non-income-producing security.*

Note: The categories of investments are shown as a percentage of total net assets at January 31, 2019.

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.

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 January 31, 2019, in valuing the Fund's assets carried at fair value:

**Valuation Inputs**

	Level 1— Quoted Prices	Level 2— Other Significant Observable Inputs	Level 3— Significant Unobservable Inputs	Total
<b>Debt Securities:</b>				
U.S. Treasuries	\$ —	\$170,262,305	\$—	\$170,262,305
Collateralized Mortgage Obligations	—	8,277,790	—	8,277,790
Government Agencies	—	54,387,203	—	54,387,203
Mortgage-Backed Securities	—	21,019,109	—	21,019,109
<b>Investment Company</b>	1,099,929	—	—	1,099,929
<b>TOTAL SECURITIES</b>	<b>\$1,099,929</b>	<b>\$253,946,407</b>	<b>\$—</b>	<b>\$255,046,336</b>
<b>Other Financial Instruments<sup>1</sup></b>				
Assets	\$ 91,387	\$ —	\$—	\$ 91,387
Liabilities	—	—	—	—
<b>TOTAL OTHER FINANCIAL INSTRUMENTS</b>	<b>\$ 91,387</b>	<b>\$ —</b>	<b>\$—</b>	<b>\$ 91,387</b>

1 *Other financial instruments are futures contracts.*

The following acronym is used throughout this portfolio:

REMIC—Real Estate Mortgage Investment Conduit

See Notes which are an integral part of the Financial Statements

# Financial Highlights – Class R Shares

(For a Share Outstanding Throughout Each Period)

<b>Year Ended January 31</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Net Asset Value, Beginning of Period</b>	<b>\$10.65</b>	<b>\$10.88</b>	<b>\$11.04</b>	<b>\$11.20</b>	<b>\$11.11</b>
<b>Income From Investment Operations:</b>					
Net investment income	0.15	0.06 <sup>1</sup>	0.05 <sup>1</sup>	0.06 <sup>1</sup>	0.06
Net realized and unrealized gain (loss)	0.01	(0.22)	(0.15)	(0.16)	0.09
<b>TOTAL FROM INVESTMENT OPERATIONS</b>	<b>0.16</b>	<b>(0.16)</b>	<b>(0.10)</b>	<b>(0.10)</b>	<b>0.15</b>
<b>Less Distributions:</b>					
Distributions from net investment income	(0.14)	(0.07)	(0.06)	(0.06)	(0.06)
<b>Net Asset Value, End of Period</b>	<b>\$10.67</b>	<b>\$10.65</b>	<b>\$10.88</b>	<b>\$11.04</b>	<b>\$11.20</b>
<b>Total Return<sup>2</sup></b>	<b>1.54%</b>	<b>(1.52)%</b>	<b>(0.90)%</b>	<b>(0.87)%</b>	<b>1.36%</b>
<b>Ratios to Average Net Assets:</b>					
Net expenses	1.32%	1.31%	1.30%	1.26%	1.14%
Net investment income	1.37%	0.61%	0.47%	0.51%	0.53%
Expense waiver/reimbursement <sup>3</sup>	0.18%	0.13%	0.00% <sup>4</sup>	0.01%	0.00%
<b>Supplemental Data:</b>					
Net assets, end of period (000 omitted)	\$7,288	\$7,681	\$12,341	\$13,697	\$14,380
Portfolio turnover	249%	182%	125%	233%	252%

1 *Per share numbers have been calculated using the average shares method.*

2 *Based on net asset value.*

3 *This expense decrease is reflected in both the net expense and the net investment income ratios shown above.*

4 *Represents less than 0.01%.*

See Notes which are an integral part of the Financial Statements

# Financial Highlights – Institutional Shares

(For a Share Outstanding Throughout Each Period)

<b>Year Ended January 31</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Net Asset Value, Beginning of Period</b>	<b>\$10.66</b>	<b>\$10.89</b>	<b>\$11.05</b>	<b>\$11.20</b>	<b>\$11.11</b>
<b>Income From Investment Operations:</b>					
Net investment income	0.23	0.15 <sup>1</sup>	0.13 <sup>1</sup>	0.13 <sup>1</sup>	0.13
Net realized and unrealized gain (loss)	(0.00) <sup>2</sup>	(0.24)	(0.15)	(0.14)	0.08
<b>TOTAL FROM INVESTMENT OPERATIONS</b>	<b>0.23</b>	<b>(0.09)</b>	<b>(0.02)</b>	<b>(0.01)</b>	<b>0.21</b>
<b>Less Distributions:</b>					
Distributions from net investment income	(0.22)	(0.14)	(0.14)	(0.14)	(0.12)
<b>Net Asset Value, End of Period</b>	<b>\$10.67</b>	<b>\$10.66</b>	<b>\$10.89</b>	<b>\$11.05</b>	<b>\$11.20</b>
<b>Total Return<sup>3</sup></b>	<b>2.19%</b>	<b>(0.81)%</b>	<b>(0.20)%</b>	<b>(0.12)%</b>	<b>1.91%</b>
<b>Ratios to Average Net Assets:</b>					
Net expenses	0.59%	0.59%	0.59%	0.58%	0.58%
Net investment income	2.09%	1.33%	1.18%	1.18%	1.08%
Expense waiver/reimbursement <sup>4</sup>	0.16%	0.15%	0.13%	0.12%	0.11%
<b>Supplemental Data:</b>					
Net assets, end of period (000 omitted)	\$227,168	\$282,757	\$394,544	\$441,379	\$461,400
Portfolio turnover	249%	182%	125%	233%	252%

1 Per share numbers have been calculated using the average shares method.

2 Represents less than \$0.01.

3 Based on net asset value.

4 This expense decrease is reflected in both the net expense and the net investment income ratios shown above.

See Notes which are an integral part of the Financial Statements

# Financial Highlights – Service Shares

(For a Share Outstanding Throughout Each Period)

<b>Year Ended January 31</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Net Asset Value, Beginning of Period</b>	<b>\$10.65</b>	<b>\$10.89</b>	<b>\$11.05</b>	<b>\$11.20</b>	<b>\$11.11</b>
<b>Income From Investment Operations:</b>					
Net investment income	0.22	0.12 <sup>1</sup>	0.11 <sup>1</sup>	0.10 <sup>1</sup>	0.10
Net realized and unrealized gain (loss)	(0.00) <sup>2</sup>	(0.24)	(0.16)	(0.14)	0.09
<b>TOTAL FROM INVESTMENT OPERATIONS</b>	<b>0.22</b>	<b>(0.12)</b>	<b>(0.05)</b>	<b>(0.04)</b>	<b>0.19</b>
<b>Less Distributions:</b>					
Distributions from net investment income	(0.20)	(0.12)	(0.11)	(0.11)	(0.10)
<b>Net Asset Value, End of Period</b>	<b>\$10.67</b>	<b>\$10.65</b>	<b>\$10.89</b>	<b>\$11.05</b>	<b>\$11.20</b>
<b>Total Return<sup>3</sup></b>	<b>2.05%</b>	<b>(1.13)%</b>	<b>(0.43)%</b>	<b>(0.35)%</b>	<b>1.68%</b>
<b>Ratios to Average Net Assets:</b>					
Net expenses	0.82%	0.82%	0.82%	0.81%	0.81%
Net investment income	1.84%	1.10%	0.95%	0.95%	0.85%
Expense waiver/reimbursement <sup>4</sup>	0.13%	0.10%	0.08%	0.08%	0.07%
<b>Supplemental Data:</b>					
Net assets, end of period (000 omitted)	\$22,046	\$37,028	\$51,778	\$54,610	\$73,550
Portfolio turnover	249%	182%	125%	233%	252%

1 Per share numbers have been calculated using the average shares method.

2 Represents less than \$0.01.

3 Based on net asset value.

4 This expense decrease is reflected in both the net expense and the net investment income ratios shown above.

See Notes which are an integral part of the Financial Statements



# Statement of Assets and Liabilities

January 31, 2019

## Assets:

Investment in securities, at value including \$1,099,929 of investment in an affiliated holding (identified cost \$251,351,822)	\$255,046,336
Restricted cash (Note 2)	118,500
Income receivable	1,740,756
Income receivable from an affiliated holding	2,312
Receivable for shares sold	558,307
<b>TOTAL ASSETS</b>	<b>257,466,211</b>

## Liabilities:

Payable for shares redeemed	\$696,576
Payable for daily variation margin on futures contracts	71,825
Income distribution payable	57,911
Payable for investment adviser fee (Note 5)	4,855
Payable for administrative fees (Note 5)	559
Payable for transfer agent fee	46,246
Payable for Directors'/Trustees' fees (Note 5)	538
Payable for portfolio accounting fees	32,484
Payable for distribution services fee (Note 5)	2,014
Payable for other service fees (Notes 2 and 5)	21,275
Accrued expenses (Note 5)	30,527
<b>TOTAL LIABILITIES</b>	<b>964,810</b>
Net assets for 24,035,737 shares outstanding	\$256,501,401

## Net Assets Consist of:

Paid-in capital	\$287,584,521
Total distributable earnings (loss)	(31,083,120)
<b>TOTAL NET ASSETS</b>	<b>\$256,501,401</b>

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

### Class R Shares:

Net asset value per share ( $\$7,287,842 \div 683,158$ shares outstanding), no par value, unlimited shares authorized	\$10.67
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### Institutional Shares:

Net asset value per share ( $\$227,167,654 \div 21,286,710$ shares outstanding), no par value, unlimited shares authorized	\$10.67
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### Service Shares:

Net asset value per share ( $\$22,045,905 \div 2,065,869$ shares outstanding), no par value, unlimited shares authorized	\$10.67
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See Notes which are an integral part of the Financial Statements

# Statement of Operations

Year Ended January 31, 2019

## Investment Income:

Interest	\$ 7,555,221
Dividends received from an affiliated holding*	86,588
<b>TOTAL INCOME</b>	<b>7,641,809</b>

## Expenses:

Investment adviser fee (Note 5)	\$1,141,009
Administrative fee (Note 5)	228,436
Custodian fees	18,225
Transfer agent fee (Note 2)	274,083
Directors'/Trustees' fees (Note 5)	9,018
Auditing fees	29,601
Legal fees	11,474
Portfolio accounting fees	91,763
Distribution services fee (Note 5)	36,775
Other service fees (Notes 2 and 5)	294,747
Share registration costs	64,575
Printing and postage	28,676
Miscellaneous (Note 5)	30,462
<b>TOTAL EXPENSES</b>	<b>2,258,844</b>

## Waivers and Reimbursements:

Waiver/reimbursement of investment adviser fee (Note 5)	\$ (38,191)
Waiver/reimbursements of other operating expenses (Notes 2 and 5)	(412,441)
<b>TOTAL WAIVERS AND REIMBURSEMENTS</b>	<b>(450,632)</b>

Net expenses	1,808,212
Net investment income	5,833,597

## Realized and Unrealized Gain (Loss) on Investments, Futures Contracts and Written Options:

Net realized loss on investments	(7,241,456)
Net realized gain on futures contracts	221,368
Net realized gain on written options	16,170
Net change in unrealized depreciation of investments	6,543,860
Net change in unrealized appreciation of futures contracts	91,387
Net realized and unrealized gain (loss) on investments, futures contracts and written options	(368,671)
Change in net assets resulting from operations	\$ 5,464,926

\* See Information listed after the Fund's Portfolio of Investments.

See Notes which are an integral part of the Financial Statements

# Statement of Changes in Net Assets

Year Ended January 31	2019	2018
<b>Increase (Decrease) in Net Assets</b>		
<b>Operations:</b>		
Net investment income	\$ 5,833,597	\$ 5,464,755
Net realized loss	(7,003,918)	(3,803,793)
Net change in unrealized appreciation/depreciation	6,635,247	(4,532,649)
CHANGE IN NET ASSETS RESULTING FROM OPERATIONS	5,464,926	(2,871,687)
<b>Distributions to Shareholders (Note 2):</b>		
Class R Shares	(98,894)	(56,721)
Institutional Shares	(5,096,739)	(4,930,467)
Service Shares	(549,103)	(462,999)
CHANGE IN NET ASSETS RESULTING FROM DISTRIBUTIONS TO SHAREHOLDERS	(5,744,736)	(5,450,187)
<b>Share Transactions:</b>		
Proceeds from sale of shares	49,148,682	83,546,981
Net asset value of shares issued to shareholders in payment of distributions declared	5,115,892	5,033,052
Cost of shares redeemed	(124,949,593)	(211,454,780)
CHANGE IN NET ASSETS RESULTING FROM SHARE TRANSACTIONS	(70,685,019)	(122,874,747)
Change in net assets	(70,964,829)	(131,196,621)
<b>Net Assets:</b>		
Beginning of period	327,466,230	458,662,851
End of period	\$ 256,501,401	\$ 327,466,230

See Notes which are an integral part of the Financial Statements

# Notes to Financial Statements

January 31, 2019

## 1. ORGANIZATION

Federated U.S. Government Securities Fund: 2-5 Years (the "Fund") is registered under the Investment Company Act of 1940, as amended (the "Act"), as a diversified, open-end management investment company. The Fund offers three classes of shares: Class R Shares, Institutional Shares and Service Shares. All shares of the Fund have equal rights with respect to voting, except on class-specific matters. The investment objective of the Fund is current income.

## 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:

- Fixed-income securities are fair valued using price evaluations provided by a pricing service approved by the Fund's Board of Trustees (the "Trustees").
- Derivative contracts listed on exchanges are valued at their reported settlement or closing price, except that options are valued at the mean of closing bid and asked quotations.
- Over-the-counter (OTC) derivative contracts are fair valued using price evaluations provided by a pricing service approved by the Trustees.
- Shares of other mutual funds or non-exchange-traded investment companies are valued based upon their reported NAVs.
- 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 last traded or purchase price of the security, information obtained by contacting the issuer or dealers, 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, public trading in similar securities or derivative contracts of the issuer or comparable issuers, movement of a relevant index, or other factors including but not limited to industry changes and relevant government actions.

If any price, quotation, price evaluation or other pricing source is not readily available when the NAV is calculated, if the Fund cannot obtain price evaluations from a pricing service or from more than one dealer for an investment within a reasonable period of time as set forth in the Fund's valuation policies and procedures, or if information furnished by a pricing service, in the opinion of the valuation committee ("Valuation Committee"), is deemed not representative of the fair value of such security, 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 obtain the fair value assigned to an investment if it sold the investment at approximately the time at which the Fund determines its NAV per share.

## **Fair Valuation Procedures**

The Trustees have ultimate responsibility for determining the fair value of investments for which market quotations are not readily available. The Trustees have appointed a Valuation Committee comprised of officers of the Fund, Federated Investment Management Company (the "Adviser"), and certain of the Adviser's affiliated companies to assist in determining fair value and in overseeing the calculation of the NAV. The Trustees have also authorized the use of pricing services recommended by the Valuation Committee to provide fair value evaluations of the current value of certain investments for purposes of calculating the NAV. The Valuation Committee employs various methods for reviewing third-party pricing-service evaluations including periodic reviews of third-party pricing services' policies, procedures and valuation methods (including key inputs, methods, models and assumptions), transactional back-testing, comparisons of evaluations of different pricing services, and review of price challenges by the Adviser based on recent market activity. In the event that market quotations and price evaluations are not available for an investment, the Valuation Committee determines the fair value of the investment in accordance with procedures adopted by the Trustees. The Trustees periodically review and approve the fair valuations made by the Valuation Committee and any changes made to the procedures.

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 any U.S. Treasury and Agency securities, mortgage-backed securities and municipal securities. The Fund normally uses mid evaluations for any other types of fixed-income securities and any 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.

## **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. Positive or negative inflation adjustments on Treasury Inflation-Protected Securities (TIPS) are included in interest income. Distributions of net investment income, if any, are declared daily and paid monthly. Non-cash dividends included in dividend income, if any, are recorded at fair value. Amortization/accretion of premium and discount is included in investment income. Gains and losses realized on principal payment of mortgage-backed securities (paydown gains and losses) are classified as part of investment income. 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 select classes will bear certain expenses unique to those classes. The detail of the total fund expense waivers and reimbursements of \$450,632 is disclosed in various locations in this Note 2 and Note 5. For the year ended January 31, 2019, transfer agent fees for the Fund were as follows:

	<b>Transfer Agent Fees Incurred</b>	<b>Transfer Agent Fees Reimbursed</b>
Class R Shares	\$ 30,797	\$ —
Institutional Shares	203,661	(143,149)
Service Shares	39,625	—
TOTAL	\$274,083	\$(143,149)

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.

All distributions as indicated on the Statement of Changes in Net Assets for the year ended January 31, 2018, were from net investment income. Undistributed net investment income at January 31, 2018, was \$117,080.

## Other Service Fees

The Fund may pay other service fees up to 0.25% of the average daily net assets of the Fund's Institutional Shares and Service Shares to unaffiliated financial intermediaries or to Federated Shareholder Services Company (FSSC) for providing services to shareholders and maintaining shareholder accounts. For the year ended January 31, 2019, other service fees for the Fund were as follows:

	Other Service Fees Incurred	Other Service Fees Reimbursed
Institutional Shares	\$220,547	\$(220,387)
Service Shares	74,200	(36,708)
TOTAL	\$294,747	\$(257,095)

## 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 year ended January 31, 2019, 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 January 31, 2019, tax years 2016 through 2019 remain subject to examination by the Fund's major tax jurisdictions, which include the United States of America and the Commonwealth of Massachusetts.

## 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.

## Futures Contracts

The Fund purchases and sells financial futures contracts to manage duration and yield curve risks. Upon entering into a financial futures contract with a broker, the Fund is required to deposit in a segregated account, either U.S. government securities or a specified amount of Restricted cash, which is shown in the Statement of Assets and Liabilities. Futures contracts are valued daily and unrealized gains or losses are recorded in a "variation margin" account. Daily, the Fund receives from or pays to the broker a specified amount of cash based upon changes in the variation margin account. When a contract is closed, the Fund recognizes a realized gain or loss. Futures contracts have market risks, including the risk that the change in the value of the contract may not correlate with the changes in the value of the underlying securities. There is minimal counterparty risk to the Fund since futures contracts are exchange traded and the exchange's clearing house, as counterparty to all exchange traded futures contracts, guarantees the futures contracts against default.

Futures contracts outstanding at period end are listed after the Fund's Portfolio of Investments.

The average notional value of long and short futures contracts held by the Fund throughout the period was \$15,658,167 and \$7,286,283, respectively. This is based on amounts held as of each month-end throughout the fiscal period.

## **Securities Lending**

The Fund participates in a securities lending program providing for the lending of government securities to qualified brokers. The term of the loans within the program is one year or less. The Fund normally receives cash collateral for securities loaned that may be invested in affiliated money market funds, other money market instruments and/or repurchase agreements. Investments in money market funds may include funds with a “floating” NAV that can impose redemption fees and liquidity gates, impose certain operational impediments to investing cash collateral, and, if the investee fund’s NAV decreases, result in the Fund recognizing losses and being required to cover the decrease in the value of the cash collateral. Collateral is maintained at a minimum level of 100% of the market value of investments loaned, plus interest, if applicable. In accordance with the Fund’s securities lending agreement, the market value of securities on loan is determined each day at the close of business and any additional collateral required to cover the value of securities on loan is delivered to the Fund on the next business day. Earnings on collateral are allocated between the borrower of the security, the securities lending agent, as a fee for its services under the program and the Fund, according to agreed-upon rates.

As of January 31, 2019, the Fund had no outstanding securities on loan.

## **Option Contracts**

The Fund buys or sells put and call options to seek to increase income and total return and to manage duration and yield curve risks. The seller (“writer”) of an option receives a payment or premium, from the buyer, which the writer keeps regardless of whether the buyer exercises the option. When the Fund writes a put or call option, an amount equal to the premium received is recorded as a liability and subsequently marked to market to reflect the current value of the option written. Premiums received from writing options which expire are treated as realized gains. The Fund, as a writer of an option, bears the market risk of an unfavorable change in the price of the underlying reference instrument. When the Fund purchases a put or call option, an amount equal to the premium paid is recorded as an increase to the cost of the investment and subsequently marked to market to reflect the current value of the option purchased. Premiums paid for purchasing options which expire are treated as realized losses. Premiums received/paid for writing/purchasing options which are exercised or closed are added to the proceeds or offset against amounts paid on the underlying reference instrument to determine the realized gain or loss. The risk associated with purchasing put and call options is limited to the premium paid. Options can trade on securities or commodities exchanges. In this case, the exchange sets all the terms of the contract except for the price. Most exchanges require investors to maintain margin accounts through their brokers to cover their potential obligations to the exchange. This protects investors against potential defaults by the counterparty.

The average market value of purchased call and put options held by the Fund throughout the period was \$6,190 and \$8,838, respectively. This is based on amounts held as of each month-end throughout the fiscal period.



## Additional Disclosure Related to Derivative Instruments

### Fair Value of Derivative Instruments

	Liabilities	
	Statement of Assets and Liabilities Location	Fair Value
Derivatives not accounted for as hedging instruments under ASC Topic 815		
Interest rate contracts	Payable for daily variation margin on futures contracts	\$(91,387)*

\* Includes cumulative appreciation of futures contracts as reported in the footnotes to the Portfolio of Investments, only current day's variation margin is reported within the Statement of Assets and Liabilities.

### The Effect of Derivative Instruments on the Statement of Operations for the Year Ended January 31, 2019

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

	Futures Contracts	Purchased Option Contracts <sup>1</sup>	Written Option Contracts	Total
Interest rate contracts	\$221,368	\$(101,602)	\$16,170	\$135,936

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

	Futures Contracts	Purchased Option Contracts <sup>2</sup>	Total
Interest rate contracts	\$91,387	\$13,169	\$104,556

- <sup>1</sup> The net realized loss on Purchased Option Contracts is found within the Net realized loss on investments on the Statement of Operations.
- <sup>2</sup> The net change in unrealized appreciation of Purchased Option Contracts is found within the Net change in unrealized depreciation of investments on the Statement of Operations.

### 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. The Fund applies investment company accounting and reporting guidance.

### 3. SHARES OF BENEFICIAL INTEREST

The following tables summarize share activity:

Year Ended January 31	2019		2018	
	Shares	Amount	Shares	Amount
<b>Class R Shares:</b>				
Shares sold	193,872	\$ 2,050,371	198,677	\$ 2,156,162
Shares issued to shareholders in payment of distributions declared	8,523	90,122	4,816	52,261
Shares redeemed	(240,384)	(2,543,748)	(616,408)	(6,703,045)
NET CHANGE RESULTING FROM CLASS R SHARE TRANSACTIONS	(37,989)	\$ (403,255)	(412,915)	\$(4,494,622)

Year Ended January 31	2019		2018	
	Shares	Amount	Shares	Amount
<b>Institutional Shares:</b>				
Shares sold	3,663,056	\$ 38,741,181	6,223,441	\$ 67,585,886
Shares issued to shareholders in payment of distributions declared	428,973	4,537,200	421,042	4,568,974
Shares redeemed	(9,341,995)	(98,693,610)	(16,349,101)	(176,620,307)
NET CHANGE RESULTING FROM INSTITUTIONAL SHARE TRANSACTIONS	(5,249,966)	\$(55,415,229)	(9,704,618)	\$(104,465,447)

Year Ended January 31	2019		2018	
	Shares	Amount	Shares	Amount
<b>Service Shares:</b>				
Shares sold	788,762	\$ 8,357,130	1,271,174	\$ 13,804,933
Shares issued to shareholders in payment of distributions declared	46,189	488,570	37,953	411,817
Shares redeemed	(2,244,326)	(23,712,235)	(2,590,250)	(28,131,428)
NET CHANGE RESULTING FROM SERVICE SHARE TRANSACTIONS	(1,409,375)	\$(14,866,535)	(1,281,123)	\$ (13,914,678)
NET CHANGE RESULTING FROM TOTAL FUND SHARE TRANSACTIONS	(6,697,330)	\$(70,685,019)	(11,398,656)	\$(122,874,747)

### 4. FEDERAL TAX INFORMATION

The tax character of distributions as reported on the Statement of Changes in Net Assets for the years ended January 31, 2019 and 2018, was as follows:

	2019	2018
Ordinary income	\$5,744,736	\$5,450,187

As of January 31, 2019, the components of distributable earnings on a tax-basis were as follows:

Undistributed ordinary income	\$ 205,942
Net unrealized appreciation	\$ 3,694,513
Capital loss carryforwards and deferrals	\$(34,983,575)

The difference between book-basis and tax-basis net unrealized appreciation/depreciation is attributable to differing treatments for mark-to-market of derivative instruments and straddle loss deferrals.

At January 31, 2019, the cost of investments for federal tax purposes was \$251,351,822. The net unrealized appreciation of investments for federal tax purposes was \$3,590,072. This consists of net unrealized appreciation from investments for those securities having an excess of value over cost of \$3,590,072. The amounts presented are inclusive of derivative contracts.

At January 31, 2019, the Fund had a capital loss carryforward of \$34,879,133 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, thereby reducing 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, a net capital loss incurred in taxable years beginning after December 22, 2010, retains its character as either short-term or long-term and does not expire. All of the Fund's capital loss carryforwards were incurred in taxable years after December 22, 2010.

The following schedule summarizes the Fund's capital loss carryforwards:

Short-Term	Long-Term	Total
\$33,912,506	\$966,627	\$34,879,133

At January 31, 2019, for federal income tax purposes, the Fund had \$104,442 in straddle loss deferrals.

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

### Investment Adviser Fee

The advisory agreement between the Fund and the Adviser provides for an annual fee equal to 0.40% 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 and/or reimburse certain operating expenses of the Fund. For the year ended January 31, 2019, the Adviser voluntarily waived \$34,711 of its fee and voluntarily reimbursed \$143,149 of transfer agent fees. The Adviser has agreed to reimburse the Fund for certain investment adviser fees as a result of transactions in other affiliated investment companies. For the year ended January 31, 2019, the Adviser reimbursed \$3,480.

### Administrative Fee

Federated Administrative Services (FAS), under the Administrative Services Agreement, provides the Fund with administrative personnel and services. For purposes of determining the appropriate rate breakpoint, "Investment Complex" is defined as all of the Federated Funds subject to a fee under the Administrative Services Agreement. The fee paid to FAS is based on the average daily net assets of the Investment Complex as specified below:

Administrative Fee	Average Daily Net Assets of the Investment Complex
0.100%	on assets up to \$50 billion
0.075%	on assets over \$50 billion

Subject to the terms described in the Expense Limitation note, FAS may voluntarily choose to waive any portion of its fee. For the year ended January 31, 2019, the annualized fee paid to FAS was 0.080% of average daily net assets of the Fund.

Prior to September 1, 2017, the breakpoints of the Administrative Fee paid to FAS, described above, were:

<b>Administrative Fee</b>	<b>Average Daily Net Assets of the Investment Complex</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

In addition, FAS may charge certain out-of-pocket expenses to the Fund.

### **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 R Shares and Service 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:

<b>Share Class Name</b>	<b>Percentage of Average Daily Net Assets of Class</b>
Class R Shares	0.50%
Service Shares	0.05%

Subject to the terms described in the Expense Limitation note, FSC may voluntarily choose to waive any portion of its fee. For the year ended January 31, 2019, distribution services fees for the Fund were as follows:

	<b>Distribution Services Fees Incurred</b>	<b>Distribution Services Fees Waived</b>
Class R Shares	\$36,775	\$(12,197)

For the year ended January 31, 2019, FSC did not retain any fees paid by the Fund.

When FSC receives fees, it may pay some or all of them to financial intermediaries whose customers purchase shares. For the year ended January 31, 2019, the Fund’s Service Shares did not incur a distribution services fee; however, it may begin to incur this fee upon approval of the Trustees.

### **Other Service Fees**

For the year ended January 31, 2019, FSSC received \$1,086 and reimbursed \$257,095 of the other service fees disclosed in Note 2.

## Expense Limitation

The Adviser and certain of its affiliates (which may include FSC, FAS and FSSC) on their own initiative have agreed to waive certain amounts of their respective fees and/or reimburse expenses. Effective April 1, 2019, total annual fund operating expenses (as shown in the financial highlights, excluding interest expense, extraordinary expenses and proxy-related expenses paid by the Fund, if any) paid by the Fund's Class R Shares, Institutional Shares and Service Shares (after the voluntary waivers and/or reimbursements) will not exceed 1.32%, 0.59% and 0.82% (the "Fee Limit"), respectively, up to but not including the later of (the "Termination Date"): (a) April 1, 2020; or (b) the date of the Fund's next effective Prospectus. While the Adviser and its applicable 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.

## Directors'/Trustees' and Miscellaneous Fees

Certain Officers and Trustees of the Fund are Officers and Directors or Trustees of certain of the above companies. To efficiently facilitate payment, Directors'/Trustees' fees and certain expenses related to conducting meetings of the Directors/Trustees and other miscellaneous expenses are paid by an affiliate of the Adviser which in due course are reimbursed by the Fund. These expenses related to conducting meetings of the Directors/Trustees and other miscellaneous expenses may be included in Accrued and Miscellaneous Expenses on the Statement of Assets and Liabilities and Statement of Operations, respectively.

## 6. INVESTMENT TRANSACTIONS

Purchases and sales of investments, excluding long-term U.S. government securities and short-term obligations, for the year ended January 31, 2019, were as follows:

Purchases	\$9,261,907
Sales	\$1,102,340

## 7. LINE OF CREDIT

The Fund participates with certain other Federated Funds, on a several basis, in an up to \$500,000,000 unsecured, 364-day, committed, revolving line of credit (LOC) agreement. The LOC was made available to finance temporarily the repurchase or redemption of shares of the Fund, failed trades, payment of dividends, settlement of trades and for other short-term, temporary or emergency general business purposes. The Fund cannot borrow under the LOC if an inter-fund loan is outstanding. The Fund's ability to borrow under the LOC also is subject to the limitations of the Act and various conditions precedent that must be satisfied before the Fund can borrow. Loans under the LOC are charged interest at a fluctuating rate per annum equal to the highest, on any day, of (a) (i) the federal funds effective rate, (ii) the one month London Interbank Offered Rate (LIBOR), and (iii) 0.0%, plus (b) a margin. The LOC also requires the Fund to pay, quarterly in arrears and at maturity, its pro rata share of a commitment fee based on the amount of the lenders' commitment that has not been utilized. As of January 31, 2019, the Fund had no outstanding loans. During the year ended January 31, 2019, the Fund did not utilize the LOC.

## **8. 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 January 31, 2019, there were no outstanding loans. During the year ended January 31, 2019, the program was not utilized.

# Report of Independent Registered Public Accounting Firm

## **TO THE SHAREHOLDERS AND THE BOARD OF TRUSTEES OF FEDERATED U.S. GOVERNMENT SECURITIES FUND: 2-5 YEARS:**

### **Opinion on the Financial Statements**

We have audited the accompanying statement of assets and liabilities of Federated U.S. Government Securities Fund: 2-5 Years (the “Fund”), including the portfolio of investments, as of January 31, 2019, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund at January 31, 2019, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

### **Basis for Opinion**

These financial statements are the responsibility of the Fund’s management. Our responsibility is to express an opinion on the Fund’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund’s internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of January 31, 2019, by correspondence with the custodian and others or by other appropriate auditing procedures where replies from others were not received. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

*Ernst + Young LLP*

We have served as the auditor of one or more Federated investment companies since 1979.

Boston, Massachusetts

March 25, 2019



## Shareholder Expense Example (unaudited)

As a shareholder of the Fund, you incur ongoing costs, including management fees and to the extent applicable, distribution (12b-1) fees and/or other service 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 August 1, 2018 to January 31, 2019.

### **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. 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.

	Beginning Account Value 8/1/2018	Ending Account Value 1/31/2019	Expenses Paid During Period <sup>1</sup>
<b>Actual:</b>			
Class R Shares	\$1,000	\$1,021.10	\$6.72
Institutional Shares	\$1,000	\$1,023.80	\$3.01
Service Shares	\$1,000	\$1,022.70	\$4.18
<b>Hypothetical (assuming a 5% return before expenses):</b>			
Class R Shares	\$1,000	\$1,018.50	\$6.72
Institutional Shares	\$1,000	\$1,022.20	\$3.01
Service Shares	\$1,000	\$1,021.10	\$4.18

<sup>1</sup> Expenses are equal to the Fund's annualized net expense ratios, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half-year period). The annualized net expense ratios are as follows:

Class R Shares	1.32%
Institutional Shares	0.59%
Service Shares	0.82%

## In Memoriam

With profound sadness, Federated announces the passing of Richard B. (“Dick”) Fisher. He will be greatly missed.

### **RICHARD B. FISHER**

(Former Officer of the Federated Funds, Chairman of Federated Securities Corp., and Vice Chairman of Federated Investors, Inc.)

Dick Fisher, along with John F. (“Jack”) Donahue and Thomas J. Donnelly, Esq., co-founded Federated in 1955 and served as a leader, particularly for Federated’s sales division, and an officer of the Federated Funds. Mr. Fisher was a family man of deep faith, with exemplary character, prodigious generosity, immeasurable devotion, undeniable charm and a good sense of humor. He served his religion, family, community, and the Federated Funds and Federated, as well as their shareholders, officers and employees, with distinction. His integrity, intelligence, and keen sense of duty to shareholders, coupled with his faith and devotion to family, allowed him to become the consummate gentleman and salesman par excellence who will be greatly missed. Among his many achievements, Mr. Fisher led the sales strategy and execution for Federated’s Fund for U.S. Government Securities, the first fund to invest exclusively in government bonds, and spearheaded the campaign for sales of Federated’s Government Income Securities Fund, the first of what would become Federated’s Fortress family of funds. Federated expresses deep gratitude to Mr. Fisher for his inspiring leadership, distinguished service and contributions as a husband, father, co-founder, officer, colleague and friend.

## Board of Trustees and Trust Officers

The Board of Trustees is responsible for managing the Trust’s business affairs and for exercising all the Trust’s powers except those reserved for the shareholders. The following tables give information about each Trustee and the senior officers of the Fund. Where required, the tables separately list Trustees who are “interested persons” of the Fund (i.e., “Interested” Trustees) and those who are not (i.e., “Independent” Trustees). Unless otherwise noted, the address of each person listed is Federated Investors Tower, 1001 Liberty Avenue, Pittsburgh, PA 15222. The address of all Independent Trustees listed is 4000 Ericsson Drive, Warrendale, PA 15086-7561; Attention: Mutual Fund Board. As of December 31, 2018, the Trust comprised one portfolio(s), and the Federated Fund Family consisted of 40 investment companies (comprising 102 portfolios). Unless otherwise noted, each Officer is elected annually. Unless otherwise noted, each Trustee oversees all portfolios in the Federated Fund Family and serves for an indefinite term. The Fund’s Statement of Additional Information includes additional information about Trust Trustees and is available, without charge and upon request, by calling 1-800-341-7400.

## INTERESTED TRUSTEES BACKGROUND

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**Name**

**Birth Date**

**Positions Held with Fund  
Date Service Began**

**Principal Occupation(s) for Past Five Years,  
Other Directorships Held and Previous Position(s)**

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**J. Christopher Donahue\***

Birth Date: April 11, 1949  
PRESIDENT AND TRUSTEE  
Indefinite Term  
Began serving: August 2000

**Principal Occupations:** Principal Executive Officer and President of certain of the Funds in the Federated Fund Family; Director or Trustee of the Funds in the Federated Fund Family; President, Chief Executive Officer and Director, Federated Investors, Inc.; Chairman and Trustee, Federated Investment Management Company; Trustee, Federated Investment Counseling; Chairman and Director, Federated Global Investment Management Corp.; Chairman and Trustee, Federated Equity Management Company of Pennsylvania; Trustee, Federated Shareholder Services Company; Director, Federated Services Company.

**Previous Positions:** President, Federated Investment Counseling; President and Chief Executive Officer, Federated Investment Management Company, Federated Global Investment Management Corp. and Passport Research, Ltd; Chairman, Passport Research, Ltd.

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**John B. Fisher\***

Birth Date: May 16, 1956  
TRUSTEE  
Indefinite Term  
Began serving: May 2016

**Principal Occupations:** Principal Executive Officer and President of certain of the Funds in the Federated Fund Family; Director or Trustee of certain of the Funds in the Federated Fund Family; Vice President, Federated Investors, Inc.; President, Director/Trustee and CEO, Federated Advisory Services Company, Federated Equity Management Company of Pennsylvania, Federated Global Investment Management Corp., Federated Investment Counseling, Federated Investment Management Company; President of some of the Funds in the Federated Fund Complex and Director, Federated Investors Trust Company.

**Previous Positions:** President and Director of the Institutional Sales Division of Federated Securities Corp.; President and Director of Federated Investment Counseling; President and CEO of Passport Research, Ltd.; Director, Edgewood Securities Corp.; Director, Federated Services Company; Director, Federated Investors, Inc.; Chairman and Director, Southpointe Distribution Services, Inc. and President, Technology, Federated Services Company.

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\* *Reasons for "interested" status: J. Christopher Donahue and John B. Fisher are interested due to their beneficial ownership of shares of Federated Investors, Inc. and due to positions they hold with Federated and its subsidiaries.*

## INDEPENDENT TRUSTEES BACKGROUND

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**Name**

**Birth Date**

**Positions Held with Fund  
Date Service Began**

**Principal Occupation(s) for Past Five Years,  
Other Directorships Held, Previous Position(s) and Qualifications**

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**John T. Collins**

Birth Date: January 24, 1947  
TRUSTEE

Indefinite Term

Began serving: October 2013

**Principal Occupations:** Director or Trustee of the Federated Fund Family; formerly, Chairman and CEO, The Collins Group, Inc. (a private equity firm) (Retired).

**Other Directorships Held:** Director, Chairman of the Compensation Committee, KLX Energy Services Holdings, Inc. (oilfield services); former Director of KLX Corp. (aerospace).

**Qualifications:** Mr. Collins has served in several business and financial management roles and directorship positions throughout his career. Mr. Collins previously served as Chairman and CEO of The Collins Group, Inc. (a private equity firm) and as a Director of KLX Corp. Mr. Collins serves as Chairman Emeriti, Bentley University. Mr. Collins previously served as Director and Audit Committee Member, Bank of America Corp.; Director, FleetBoston Financial Corp.; and Director, Beth Israel Deaconess Medical Center (Harvard University Affiliate Hospital).

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**G. Thomas Hough**

Birth Date: February 28, 1955  
TRUSTEE

Indefinite Term

Began serving: August 2015

**Principal Occupations:** Director or Trustee of the Federated Fund Family; formerly, Vice Chair, Ernst & Young LLP (public accounting firm) (Retired).

**Other Directorships Held:** Director, Member of Governance and Compensation Committees, Publix Super Markets, Inc.; Director, Chair of the Audit Committee, Equifax, Inc.; Director, Member of the Audit Committee, Haverly Furniture Companies, Inc.

**Qualifications:** Mr. Hough has served in accounting, business management and directorship positions throughout his career. Mr. Hough most recently held the position of Americas Vice Chair of Assurance with Ernst & Young LLP (public accounting firm). Mr. Hough serves on the President's Cabinet and Business School Board of Visitors for the University of Alabama and is on the Business School Board of Visitors for Wake Forest University. Mr. Hough previously served as an Executive Committee member of the United States Golf Association.

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**Maureen Lally-Green**

Birth Date: July 5, 1949  
TRUSTEE

Indefinite Term

Began serving: October 2013

**Principal Occupations:** Director or Trustee of the Federated Fund Family; Associate General Secretary, Diocese of Pittsburgh; Adjunct Professor of Law, Duquesne University School of Law.

**Other Directorships Held:** Director, CONSOL Energy Inc.

**Qualifications:** Judge Lally-Green has served in various legal and business roles and directorship positions throughout her career. Judge Lally-Green previously served as Professor of Law, Duquesne University School of Law and was a member of the Superior Court of Pennsylvania. Judge Lally-Green also holds the positions of: Member, Pennsylvania State Board of Education; Director, Saint Vincent College; Director and Chair, UPMC Mercy Hospital; Regent, St. Vincent Seminary; Director, Epilepsy Foundation of Western and Central Pennsylvania; Director, Our Campaign for the Church Alive!, Inc.; Director, Pennsylvania Bar Institute; and Director, Catholic High Schools of the Diocese of Pittsburgh, Inc. Judge Lally-Green has held the positions of: Director, Auberle; Director, Ireland Institute of Pittsburgh; Director, Saint Thomas More Society; and Director Cardinal Wuerl Catholic High School.

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Name	Birth Date	Positions Held with Fund Date Service Began	Principal Occupation(s) for Past Five Years, Other Directorships Held, Previous Position(s) and Qualifications
<b>Charles F. Mansfield, Jr.</b>	Birth Date: April 10, 1945 TRUSTEE	Indefinite Term Began serving: January 1999	<p><b>Principal Occupations:</b> Director or Trustee of the Federated Fund Family; Management Consultant and Author.</p> <p><b>Other Directorships Held:</b> None.</p> <p><b>Qualifications:</b> Mr. Mansfield has served as a Marine Corps officer and in several banking, business management, educational roles and directorship positions throughout his long career. He remains active as a Management Consultant and Author.</p>
<b>Thomas M. O'Neill</b>	Birth Date: June 14, 1951 TRUSTEE	Indefinite Term Began serving: August 2006	<p><b>Principal Occupations:</b> Director or Trustee, Chair of the Audit Committee of the Federated Fund Family; Sole Proprietor, Navigator Management Company (investment and strategic consulting).</p> <p><b>Other Directorships Held:</b> None.</p> <p><b>Qualifications:</b> Mr. O'Neill has served in several business, mutual fund and financial management roles and directorship positions throughout his career. Mr. O'Neill serves as Director, Medicines for Humanity and Director, The Golisano Children's Museum of Naples, Florida. Mr. O'Neill previously served as Chief Executive Officer and President, Managing Director and Chief Investment Officer, Fleet Investment Advisors; President and Chief Executive Officer, Aeltus Investment Management, Inc.; General Partner, Hellman, Jordan Management Co., Boston, MA; Chief Investment Officer, The Putnam Companies, Boston, MA; Credit Analyst and Lending Officer, Fleet Bank; Director and Consultant, EZE Castle Software (investment order management software); and Director, Midway Pacific (lumber).</p>
<b>P. Jerome Richey</b>	Birth Date: February 23, 1949 TRUSTEE	Indefinite Term Began serving: September 2013	<p><b>Principal Occupations:</b> Director or Trustee of the Federated Fund Family; Management Consultant; Retired; formerly, Senior Vice Chancellor and Chief Legal Officer, University of Pittsburgh and Executive Vice President and Chief Legal Officer, CNX Resources Corporation (formerly known as CONSOL Energy Inc.).</p> <p><b>Other Directorships Held:</b> None.</p> <p><b>Qualifications:</b> Mr. Richey has served in several business and legal management roles and directorship positions throughout his career. Mr. Richey most recently held the positions of Senior Vice Chancellor and Chief Legal Officer, University of Pittsburgh. Mr. Richey previously served as Chairman of the Board, Epilepsy Foundation of Western Pennsylvania and Chairman of the Board, World Affairs Council of Pittsburgh. Mr. Richey previously served as Chief Legal Officer and Executive Vice President, CNX Resources Corporation (formerly known as CONSOL Energy Inc.); and Board Member, Ethics Counsel and Shareholder, Buchanan Ingersoll &amp; Rooney PC (a law firm).</p>

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<b>Name</b>	
<b>Birth Date</b>	
<b>Positions Held with Fund</b>	<b>Principal Occupation(s) for Past Five Years,</b>
<b>Date Service Began</b>	<b>Other Directorships Held, Previous Position(s) and Qualifications</b>
<b>John S. Walsh</b>	<b>Principal Occupations:</b> Director or Trustee, and Chair of the Board of Directors or Trustees, of the Federated Fund Family; President and Director, Heat Wagon, Inc. (manufacturer of construction temporary heaters); President and Director, Manufacturers Products, Inc. (distributor of portable construction heaters); President, Portable Heater Parts, a division of Manufacturers Products, Inc.
Birth Date: November 28, 1957	
TRUSTEE	
Indefinite Term	
Began serving: January 1999	
	<b>Other Directorships Held:</b> None.
	<b>Qualifications:</b> Mr. Walsh has served in several business management roles and directorship positions throughout his career. Mr. Walsh previously served as Vice President, Walsh & Kelly, Inc. (paving contractors).

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## OFFICERS

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<b>Name</b>	
<b>Birth Date</b>	
<b>Address</b>	
<b>Positions Held with Fund</b>	<b>Principal Occupation(s) for Past Five Years</b>
<b>Date Service Began</b>	<b>and Previous Position(s)</b>
<b>Lori A. Hensler</b>	<b>Principal Occupations:</b> Principal Financial Officer and Treasurer of the Federated Fund Family; Senior Vice President, Federated Administrative Services; Financial and Operations Principal for Federated Securities Corp. and Edgewood Services, Inc.; and Assistant Treasurer, Federated Investors Trust Company. Ms. Hensler has received the Certified Public Accountant designation.
Birth Date: January 6, 1967	
TREASURER	
Officer since: April 2013	
	<b>Previous Positions:</b> Controller of Federated Investors, Inc.; Senior Vice President and Assistant Treasurer, Federated Investors Management Company; Treasurer, Federated Investors Trust Company; Assistant Treasurer, Federated Administrative Services, Federated Administrative Services, Inc., Federated Securities Corp., Edgewood Services, Inc., Federated Advisory Services Company, Federated Equity Management Company of Pennsylvania, Federated Global Investment Management Corp., Federated Investment Counseling, Federated Investment Management Company, Passport Research, Ltd., and Federated MDTA, LLC; Financial and Operations Principal for Federated Securities Corp., Edgewood Services, Inc. and Southpointe Distribution Services, Inc.

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<b>Name</b> <b>Birth Date</b> <b>Address</b> <b>Positions Held with Fund</b> <b>Date Service Began</b>	<b>Principal Occupation(s) for Past Five Years</b> <b>and Previous Position(s)</b>
<b>Peter J. Germain</b> Birth Date: September 3, 1959 CHIEF LEGAL OFFICER, SECRETARY AND EXECUTIVE VICE PRESIDENT Officer since: January 2005	<p><b>Principal Occupations:</b> Mr. Germain is Chief Legal Officer, Secretary and Executive Vice President of the Federated Fund Family. He is General Counsel, Chief Legal Officer, Secretary and Executive Vice President, Federated Investors, Inc.; Trustee and Senior Vice President, Federated Investors Management Company; Trustee and President, Federated Administrative Services; Director and President, Federated Administrative Services, Inc.; Director and Vice President, Federated Securities Corp.; Director and Secretary, Federated Private Asset Management, Inc.; Secretary, Federated Shareholder Services Company; and Secretary, Retirement Plan Service Company of America. Mr. Germain joined Federated in 1984 and is a member of the Pennsylvania Bar Association.</p> <p><b>Previous Positions:</b> Deputy General Counsel, Special Counsel, Managing Director of Mutual Fund Services, Federated Investors, Inc.; Senior Vice President, Federated Services Company; and Senior Corporate Counsel, Federated Investors, Inc.</p>
<b>Stephen Van Meter</b> Birth Date: June 5, 1975 CHIEF COMPLIANCE OFFICER AND SENIOR VICE PRESIDENT Officer since: July 2015	<p><b>Principal Occupations:</b> Senior Vice President and Chief Compliance Officer of the Federated Fund Family; Vice President and Chief Compliance Officer of Federated Investors, Inc. and Chief Compliance Officer of certain of its subsidiaries. Mr. Van Meter joined Federated in October 2011. He holds FINRA licenses under Series 3, 7, 24 and 66.</p> <p><b>Previous Positions:</b> Mr. Van Meter previously held the position of Compliance Operating Officer, Federated Investors, Inc. Prior to joining Federated, Mr. Van Meter served at the United States Securities and Exchange Commission in the positions of Senior Counsel, Office of Chief Counsel, Division of Investment Management and Senior Counsel, Division of Enforcement.</p>
<b>Robert J. Ostrowski</b> Birth Date: April 26, 1963 CHIEF INVESTMENT OFFICER Officer since: May 2004	<p><b>Principal Occupations:</b> Robert J. Ostrowski joined Federated in 1987 as an Investment Analyst and became a Portfolio Manager in 1990. He was named Chief Investment Officer of Federated's taxable fixed-income products in 2004 and also serves as a Senior Portfolio Manager. Mr. Ostrowski became an Executive Vice President of the Fund's Adviser in 2009 and served as a Senior Vice President of the Fund's Adviser from 1997 to 2009. Mr. Ostrowski has received the Chartered Financial Analyst designation. He received his M.S. in Industrial Administration from Carnegie Mellon University.</p>



# Evaluation and Approval of Advisory Contract – May 2018

## **FEDERATED U.S. GOVERNMENT SECURITIES FUND: 2-5 YEARS (THE “FUND”)**

At its meetings in May 2018, the Fund’s Board of Trustees (the “Board”), including a majority of those Trustees who are not “interested persons” of the Fund, as defined in the Investment Company Act of 1940 (the “Independent Trustees”), reviewed and unanimously approved the continuation of the Fund’s investment advisory contract for an additional one-year term. The Board’s decision regarding the contract reflects the exercise of its business judgment after considering all of the information received on whether to continue the existing arrangements.

The Board had previously appointed a Senior Officer, whose duties included specified responsibilities relating to the process by which advisory fees are to be charged to a fund advised by Federated Investment Management Company (the “Adviser”) or its affiliates (collectively, “Federated”) (each, a “Federated fund”). The Senior Officer’s responsibilities included preparing and furnishing to the Board an annual independent written evaluation that covered topics discussed below. In December 2017, the Senior Officer position was eliminated. Notwithstanding the elimination of the Senior Officer position, at the request of the Independent Trustees, the Fund’s Chief Compliance Officer (the CCO) furnished to the Board in advance of its May 2018 meetings an independent written evaluation covering substantially the same topics that had been covered in the Senior Officer’s written evaluation in prior years. The Board considered the CCO’s independent written evaluation (the “CCO Fee Evaluation Report”), along with other information, in evaluating the reasonableness of the Fund’s management fee and in deciding to approve the continuation of the investment advisory contract. Consistent with the former Senior Officer position, the CCO, in preparing the CCO Fee Evaluation Report, has the authority to retain consultants, experts or staff as reasonably necessary to assist in the performance of his duties, reports directly to the Board, and can be terminated only with the approval of a majority of the Independent Trustees.

The Board also considered judicial decisions concerning allegedly excessive investment advisory fees in making its decision. Using these judicial decisions as a guide, the Board observed that the following factors may be relevant to an adviser’s fiduciary duty with respect to its receipt of compensation from a fund: (1) the nature and quality of the services provided by an adviser to a fund and its shareholders (including the performance of the fund, its benchmark, and comparable funds); (2) an adviser’s cost of providing the services (including the profitability to an adviser of providing advisory services to a fund); (3) the extent to which an adviser may realize “economies of scale” as a fund grows larger and, if such economies of scale exist, whether they have been shared with a fund and its shareholders or the family of funds; (4) any “fall-out” financial benefits

that accrue to an adviser because of its relationship with a fund (including research services received from brokers that execute fund trades and any fees paid to affiliates of an adviser for services rendered to a fund); (5) comparative fee and expense structures (including a comparison of fees paid to an adviser with those paid by similar funds both internally and externally as well as management fees charged to institutional and other advisory clients of the Adviser or its affiliates for what might be viewed as like services); and (6) the extent of care, conscientiousness and independence with which the fund's board members perform their duties and their expertise (including whether they are fully informed about all facts the board deems relevant to its consideration of an adviser's services and fees). The Board noted that the Securities and Exchange Commission (SEC) disclosure requirements regarding the basis for the Board's approval of the Fund's investment advisory contract generally align with the factors listed above. The Board was aware of these factors and was guided by them in its review of the Fund's investment advisory contract to the extent it considered them to be appropriate and relevant, as discussed further below.

The Board considered and weighed these factors in light of its substantial accumulated experience in governing the Fund and working with Federated on matters relating to the Federated funds. The Independent Trustees were assisted in their deliberations by independent legal counsel.

In addition to the extensive materials that comprise and accompany the CCO Fee Evaluation Report, the Board received detailed information about the Fund and the Federated organization throughout the year, and in connection with its May meetings at which the Board's formal approval of the advisory and subadvisory contracts occurred. In this regard, Federated provided much of this information at each regular meeting of the Board, and furnished additional information specifically in connection with the May meetings. In the months preceding the May meetings, the Board requested and reviewed written materials prepared by Federated in response to requests on behalf of the Independent Trustees encompassing a wide variety of topics. At the May meetings, in addition to meeting in separate sessions of the Independent Trustees without management present, senior management of the Adviser also met with the Independent Trustees and their counsel to discuss the materials presented and such additional matters as the Independent Trustees deemed reasonably necessary to evaluate the advisory and subadvisory contracts. Between regularly scheduled meetings, the Board also received information on particular matters as the need arose.

The Board's consideration of the investment advisory contract included review of the CCO Fee Evaluation Report, accompanying data and additional information covering the following matters, among others: the Adviser's investment philosophy, revenue, profitability, personnel and processes; investment and operating strategies; the Fund's short-term and long-term performance (in absolute terms, both on a gross basis and net of expenses, as well as in terms relative 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 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; the entrepreneurial and other risks assumed by the Adviser in sponsoring the Fund; 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 funds which include a comprehensive array of funds with different investment objectives, policies and strategies which are generally available for exchange without the incurrance 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’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.

While mindful that courts have cautioned against giving too much weight to comparative information concerning fees charged by other advisers for managing funds with comparable investment programs, the Board has found the use of such comparisons to be relevant to its deliberations. In this regard, the Board was presented with, and considered, information regarding the contractual advisory fee rates, net advisory fee rates, total expense ratios and each element of the Fund’s total expense ratio (i.e., gross and net advisory fees, custody fees, portfolio accounting fees and transfer agency fees) relative to an appropriate group of peer funds compiled by Federated using data supplied by independent fund ranking organizations (the “Peer Group”). The Board received a description of the composition and methodology used to select the Peer Group. 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, in that they are readily available to Fund shareholders as alternative investment vehicles. Also, 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 relevant indicator of what consumers have found to be reasonable in the marketplace in which the Fund competes.

The Board reviewed the contractual advisory fee rate and other expenses of the Fund and noted the position of the Fund's fee rates relative to its Peer Group. In this regard, the Board noted that the contractual advisory fee rate was below the median of the relevant Peer Group and the Board was satisfied that the overall expense structure of the Fund remained competitive.

For comparison, the CCO reviewed the fees charged by Federated for providing advisory services to products other than the Federated funds (e.g., institutional and separate accounts and third-party unaffiliated mutual funds for which Federated serves as sub-adviser) (referenced to as "Comparable Funds/Accounts"). With respect to Comparable Funds/Accounts other than third-party mutual funds, the CCO concluded that they are inherently different products. Those differences include, but are not limited to, different types of targeted investors; different applicable laws and regulations; different legal structures; different average account sizes and portfolio management techniques made necessary by different cash flows and different associated costs; and the time spent by portfolio managers and their teams, as well as personnel in the Funds Financial Services, Legal, Compliance and Risk Management departments, in reviewing securities pricing, addressing different administrative responsibilities, addressing different degrees of risk associated with management and a variety of different costs. The CCO also reviewed the differences in the nature of the services required for Federated to manage its proprietary mutual fund business versus managing a discrete pool of assets as a sub-adviser to another institution's mutual fund, and that Federated generally performs significant additional services and assumes substantially greater risk in managing the Fund and other Federated funds than in its role as sub-adviser to an unaffiliated third-party mutual fund. The CCO did not consider the fees for providing advisory services to Comparable Funds/Accounts to be determinative in judging the appropriateness of the Federated funds' advisory fees.

Following such evaluation, and full deliberations, the Board concluded that the fees and expenses of the Fund are reasonable and supported renewal of the Fund's investment advisory contract.

The Board considered the nature, extent and quality of the services provided to the Fund by the Adviser and the resources of the Adviser and its affiliates dedicated to the Fund. In this regard, the Board evaluated, among other things, the Adviser's personnel, experience, track record, overall reputation and willingness to invest in personnel and infrastructure that benefit the Fund. In addition, the Board reviewed the qualifications, backgrounds and responsibilities of the portfolio management team primarily responsible for the day-to-day management of the Fund and the Adviser's ability and experience in attracting and retaining qualified personnel to service the Fund. The Board noted the compliance program of the Adviser and the compliance-related resources provided to the Fund by the Adviser, including the Adviser's commitment to respond to rulemaking initiatives of the SEC. The Fund's ability to deliver competitive performance when compared to its Peer Group was also deemed to

be relevant by the Board as a useful indicator of how the Adviser is executing the Fund's investment program. The Adviser's ability to execute this program was one of the Board's considerations in reaching a conclusion that the nature, extent and quality of the Adviser's investment management services warrant the continuation of the investment advisory contract.

In evaluating the Fund's investment performance, the Board considered performance results in light of the Fund's investment objective, strategies and risks, as disclosed in the Fund's prospectus. The Board considered detailed investment reports on the Fund's performance that were provided to the Board throughout the year and in connection with the May meetings. The CCO also reviewed information regarding the performance of other mutual funds in the Peer Group, noting the CCO's view that comparisons to fund peer groups may be helpful, though not conclusive, in evaluating the performance of the Adviser in managing the Fund. The Board considered, in evaluating such comparisons, that in some cases individual funds may exhibit significant and unique differences in their objectives and management techniques when compared to other funds within a Peer Group.

The Fund's performance fell below the median of the relevant Peer Group for the one-year, three-year and five-year periods covered by the CCO Fee Evaluation Report. The Board discussed the Fund's performance with the Adviser and recognized the efforts being taken by the Adviser in the context of other factors considered relevant by the Board. In addition, in considering the Fund's performance record, the Board took into account that the CCO noted that the Fund's permissible investments were expanded in November 2015 to include commercial mortgage-backed securities as well as information regarding the impact of the change on Fund performance.

Following such evaluation, and full deliberations, the Board concluded that the performance of the Fund supported renewal of the Fund's investment advisory contract.

The Board also received financial information about Federated, including information regarding the compensation and ancillary (or "fall-out") benefits Federated derived from its relationships with the Federated funds. This information covered not only the fees under the investment 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 and distributor). In this regard, the Board considered that certain Federated subsidiaries provide distribution and shareholder services to the Federated funds, for which they may be compensated through distribution and servicing fees paid pursuant to Rule 12b-1 plans or otherwise. The information also detailed 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 Federated fund to be competitive in the marketplace, the Adviser and its affiliates frequently waived fees and/or reimbursed expenses and have disclosed to Federated fund investors

and/or indicated to the Board their intention to do so in the future. Moreover, the Board receives regular reporting as to the institution, adjustment or elimination of these voluntary waivers. The Board considered Federated's previous reductions in contractual management fees to certain Federated funds in response to the CCO's recommendations.

Federated furnished information, requested by the CCO, 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 CCO. The CCO noted that, while these cost allocation reports apply consistent allocation processes, the inherent difficulties in allocating costs continues to cause the CCO to question the precision of the process and to conclude that such reports may be unreliable, since a single change in an allocation estimate may dramatically alter the resulting estimate of cost and/or profitability of a Federated fund and may produce unintended consequences. The allocation information, including the CCO's view that fund-by-fund estimations may be unreliable, was considered in the evaluation by the Board.

The Board and the CCO also reviewed information compiled by Federated comparing its profitability information to other publicly held fund management companies, including information regarding profitability trends over time. In this regard, the CCO concluded that Federated's profit margins did not appear to be excessive. The CCO also noted that Federated appeared financially sound, with the resources necessary to fulfill its obligations under its contracts with the Fund.

The CCO Fee Evaluation Report also discussed the notion of possible realization of "economies of scale" as a fund grows larger. In this regard, the Board considered 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, shareholder services, compliance, internal audit and risk management functions, as well as systems technology (including technology relating to cybersecurity) and that the benefits of these efforts (as well as any economies of scale, should they exist) were likely to be shared with the Federated fund family as a whole. The Board noted that the Adviser's investments in these areas are extensive. In addition, the Board considered that the Adviser and its affiliates have frequently waived fees and/or reimbursed expenses and that this has allowed fund shareholders to share potential economies of scale with shareholders. The Board also considered that such waivers and reimbursements can provide protection from an increase in expenses if a Federated fund's assets decline. Federated, as it does throughout the year, and specifically in connection with the Board's review of the advisory and subadvisory contracts, furnished information relative to revenue sharing or adviser-paid fees. Federated and the CCO noted that this information should be viewed to determine if there was an incentive to either not apply breakpoints, or to apply breakpoints at higher levels, and should not be viewed to determine the appropriateness of advisory fees because it would represent marketing and

distribution expenses. The Board also noted the absence of any applicable regulatory or industry guidelines on this subject, which (as discussed in the CCO Fee Evaluation Report) 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 a fund attains a certain size.

The CCO stated that his observations and the information accompanying the CCO Fee Evaluation Report supported a finding by the Board that the management fee for the Fund was reasonable. Under these circumstances, no changes were recommended to, and no objection was raised to the continuation of, the Fund’s investment advisory contract. The CCO also recognized that the Board’s evaluation of the Federated funds’ advisory and subadvisory arrangements is a continuing and on-going process that is informed by the information that the Board requests and receives from management throughout the course of the year and, in this regard, the CCO noted certain items for future reporting to the Board or further consideration by management as the Board continues its on-going oversight of the Federated funds.

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 investment 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 investment 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 concluded that, in light of the factors summarized above, including the nature, quality and scope of the services provided to the Fund by the Adviser and its affiliates, continuation of the investment advisory contract was appropriate.

The Board based its decision to approve the investment advisory contract 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 continuation of the contract reflects its view that Federated’s performance and actions provided a satisfactory basis to support the decision to continue the existing arrangement.

## 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 via the Proxy Voting Record (Form N-PX) link associated with the Fund and share class name at [www.FederatedInvestors.com/FundInformation](http://www.FederatedInvestors.com/FundInformation). Form N-PX filings are also available at the SEC's website at [www.sec.gov](http://www.sec.gov).

## Quarterly Portfolio Schedule

Each fiscal quarter, the Fund will file with the SEC a complete schedule of its monthly portfolio holdings on "Form N-PORT." The Fund's holdings as of the end of the third month of every fiscal quarter, as reported on Form N-PORT, will be publicly available on the SEC's website at [www.sec.gov](http://www.sec.gov) within 60 days of the end of the fiscal quarter upon filing. You may also access this information via the link to the Fund and share class name at [www.FederatedInvestors.com/FundInformation](http://www.FederatedInvestors.com/FundInformation).



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*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.

# **Federated**<sup>®</sup>

Federated U.S. Government Securities Fund: 2-5 Years  
Federated Investors Funds  
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Contact us at **FederatedInvestors.com**  
or call 1-800-341-7400.

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