MMDT

MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST

MMDT
Short Term Bond Portfolio

2015 Investment Circular

June 1, 2015

MMDT
MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST

Commonwealth of Massachusetts
Department of the State Treasurer
State House, Room 227
Boston, MA 02133

Welcome new and current participants in the MMDT,

It is with great pleasure that I assumed the role of Treasurer and Receiver General of the Commonwealth of Massachusetts in January 2015. My responsibilities include oversight of the Massachusetts Municipal Depository Trust (MMDT). Thank you for your support and confidence in this investment option.

For over three decades, MMDT has helped local governments and agencies across the Commonwealth manage cash flows. These combined investment funds provide eligible public entities the opportunity to pool money together, creating economies of scale, in an effort to receive professional investment management at a competitive cost. Your assets will continue to be managed and serviced with full transparency and within the exact specifications of the stated investment policies. As your Treasurer, I will work hard to make certain our promise to you and the commitment of excellence remains intact.

Federated Investors, one of the nation's largest investment managers, with a more than 40-year history of managing fixed-income and money market portfolios, began managing the MMDT assets in 2013. Since that time, the team of seasoned portfolio managers and credit research analysts has done an excellent job in a challenging rate environment to preserve your capital investment and maintain sufficient liquidity to meet your business needs, while seeking the highest possible level of income.

MMDT offers two portfolios: a money market investment option, the MMDT Cash Portfolio, and a fixed-income alternative, the MMDT Short Term Bond Portfolio. This investment circular provides information on the MMDT Short Term Bond Portfolio. When used alongside the MMDT Cash Portfolio, the Short Term Bond Portfolio has the potential for providing additional income, with a corresponding interest rate risk, over a longer investment time horizon.

There are also several enhanced features that MMDT offers, including the ability to transact purchases, exchanges and redemptions at MyMMDT.com. With 24-hour access, you can view information and transact business on your schedule. You have the option to future-date transactions up to 90 days in advance. Additionally, there is a mobile version of the website for use on smartphones to conduct transactions on-the-go. MMDT also provides a Voice Response Unit (VRU) that delivers detailed account information and transaction processing via one toll-free telephone call.

I trust that the information contained in this investment circular will provide answers to a number of your questions, but if you'd like even more information, I encourage you to contact MMDT Participant Services at 1-888-965-MMDT (6638) or visit MyMMDT.com.

I look forward to serving as your Treasurer and supporting the MMDT.

Sincerely,

Deborah B. Goldberg
Treasurer and Receiver General
Commonwealth of Massachusetts

This circular is the only authorized source of definitive information regarding investment in the Massachusetts Municipal Depository Trust Short Term Bond Portfolio. Participants should read and retain it for future reference.

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Authority for Organization

In 1975, the General Court of the Commonwealth enacted legislation permitting the Massachusetts State Treasurer (State Treasurer), with the advice of the Investment Advisory Council, to establish one or more combined investment funds, and to offer participation units in such funds to agencies, authorities, commissions, boards, political subdivisions, and other public units. In addition, statutes were amended making purchase of such participation units a legal investment for funds in the custody of such public units (M.G.L. Ch. 29, Sec. 38A) and state and local retirement boards (M.G.L. Ch. 32, Sec. 23(2)(b)). The enabling legislation also requires the State Treasurer to adopt appropriate accounting procedures to determine the exact earnings of each participant.

Accordingly, the State Treasurer established the Massachusetts Municipal Depository Trust (MMDT or Trust) to provide an investment pool entirely separate from other financial activities of the Commonwealth. The State Treasurer serves as the Trustee, and has sole authority pertaining to rules, regulations, and operations of the Trust. A participant's holdings in the Trust are not subject to creditors of the Commonwealth, nor will the Trust itself be affected by the financial difficulties of any participant. Further, M.G.L. Ch. 44, Sec. 55A, provides that certain local officials, who in good faith and with the exercise of due care purchase units of the Trust, shall not be personally liable to their cities or towns for the loss of funds invested in the Trust due to the Trust's closure.

Structure and Purpose

The Trust offers the MMDT Short Term Bond Portfolio (Portfolio), an investment pool in which the Commonwealth and its political subdivisions can invest their assets. The primary purpose of the Portfolio is to offer participation in a diversified portfolio of investment grade fixed-income securities that seeks to generate long-term performance exceeding the Barclays 1-5 Year Government/Credit Bond Index.

Participation in the Trust is open to the Commonwealth and its political subdivisions, including the following:

- Cities, towns, and counties
- Housing and redevelopment authorities
- Public retirement systems
- Regional transit authorities
- Regional school districts
- Most special purpose districts and authorities
- State and community colleges
- Certain state and local public agencies

Investment Objective

The investment objective of the Portfolio is to generate long-term performance exceeding the Barclays 1–5 Year Government/Credit Bond Index by investing in a diversified portfolio of investment-grade short-term fixed-income securities. The duration of the Portfolio will approximate the duration of the Barclays 1–5 Year Government/Credit Bond Index.

There is no assurance that the Portfolio will achieve its investment objective.

Investment Policies and Restrictions

Federated Investment Counseling (the "Trust's Investment Advisor") will seek to achieve the Portfolio's objective by investing in a portfolio of investment grade, fixed-income securities. Investments in the Portfolio may include, but are not limited to, the following types of fixed-income securities:

I. Debt obligations issued or guaranteed by the U.S. government, U.S. government agencies or instrumentalities, or U.S. government-sponsored enterprises.

II. Debt obligations of domestic and non-U.S. corporations, foreign governmental issuers, and supranationals.

III. Mortgage-backed securities, including collateralized mortgage obligations and commercial mortgage-backed securities, and other debt instruments backed by mortgage-backed securities.

IV. Asset-backed securities.

V. Debt obligations issued or guaranteed by U.S. local, city, and state governments and agencies.

VI. Private placements, including securities defined under Rule 144A.

VII. Derivative instruments, including futures contracts, option contracts, and swap agreements.

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VIII. Other securities not represented in the benchmark, including but not limited to zero coupon bonds, medium-term notes, structured notes, floating-rate debt, and inflation protected securities.

IX. Cash or short-term obligations, including but not limited to debt obligations issued by the U.S. government or government-sponsored agencies, commercial paper, certificates of deposit, time deposits, bankers acceptances, and repurchase agreements.

X. Units of collective investment vehicles or shares of investment companies (pooled investment vehicles) that invest primarily in fixed-income securities and are managed by the Trust's Investment Advisor or its affiliates ("Federated funds"). Investments in pooled investment vehicles will be governed by the terms of the investment guidelines of such pooled investment vehicles, notwithstanding anything to the contrary herein. All management fees associated with an investment in the Federated funds shall be credited back to the Portfolio.

In no event will the Portfolio invest in the debt of the Trust's Investment Advisor or its affiliates. All investments will be denominated in U.S. dollars.

Under normal circumstances, the Portfolio will comply with the following guidelines:

I. At time of purchase, if a security is rated, the security must be rated investment grade (BBB-, the equivalent or higher) by one or more nationally recognized statistical rating organizations (NRSROs). If a security is split rated, the higher rating shall apply. If a security is not rated by any of the NRSROs, such security may be purchased only if the Trust's Investment Advisor has assigned an internal investment grade rating.

II. The average credit quality of the Portfolio shall be at least A-, or the equivalent. For purposes of determining the average credit quality of the Portfolio, debt obligations issued or guaranteed by the U.S. government, U.S. government agencies or instrumentalities, and U.S. government-sponsored enterprises are deemed to carry an AAA rating.

III. Securities downgraded below investment grade subsequent to purchase may be held to the extent recommended by the Trust's Investment Advisor and approved by the Treasurer. The Treasurer's office will be notified when a security is downgraded such that it no longer possesses an investment grade rating. A subsequent decision to either liquidate the security within 30 days or retain the security in the Portfolio shall be at the sole discretion of the Treasurer.

IV. At time of purchase, the maximum investment in the debt of a single issuer or asset-backed-trust will be 5% of the Portfolio. Debt obligations issued or guaranteed by the U.S. government, U.S. government agencies or instrumentalities, and U.S. government-sponsored enterprises are exempt from this limitation.

V. At time of purchase, the maximum investment in asset-backed securities of any single sponsor will be 10% of the Portfolio. Debt obligations issued or guaranteed by the U.S. government, U.S. government agencies or instrumentalities, and U.S. government-sponsored enterprises are exempt from this limitation.

VI. At time of purchase, the maximum investment in the debt of a single industry will be 25% of the Portfolio. Debt obligations issued or guaranteed by the U.S. government, U.S. government agencies or instrumentalities, and U.S. government-sponsored enterprises are exempt from this limitation.

VII. The interest rate sensitivity of the Portfolio generally will be managed to approximate the expected interest rate sensitivity of the benchmark. Under normal circumstances, the Portfolio's duration shall be managed to be within ± one half year of the duration of the benchmark.

While the Trust's Investment Advisor normally purchases securities with the intention of holding them to maturity, it may, from time to time, also engage in portfolio trading in an attempt to maximize the total return on Portfolio assets.

The Portfolio's yield and net asset value will change daily based on changes in interest rates and other market conditions. While the Portfolio's assets will be invested in investment grade instruments as described above, investment in the Portfolio is not without risk. For example, an increase in interest rates or a decrease in the credit quality of the issuer of one of the Portfolio investments could cause the Portfolio's unit price to decrease. If securities are sold before their maturity, their value may be more or less than par due to changes in value when interest rates rise or fall. Securities with longer maturities can be more sensitive to interest rate changes. Short-term securities tend to react to changes in short-term interest rates. Changes in the financial condition of an issuer, changes in specific economic or political conditions that affect a particular type of issuer, and changes in general economic or political conditions can affect the credit quality or value of an issuer's securities. Entities providing credit support or a maturity shortening structure also can be affected by these types of changes. If the structure of a security fails to function as intended, the security could decline in value. The Trust's Investment Advisor invests assets only with issuers whose creditworthiness and compliance with the applicable statutes and policies have been reviewed and found satisfactory by the Trust's Investment Advisor, and approved by the Treasurer. See "Risks" for more information.

Risks

The following pages provide a brief description of securities in which the Portfolio's assets may be invested and the principal risks associated with such investments, as well as transactions the Trust's Investment Advisor may initiate on behalf of the Portfolio. The Trust's Investment Advisor is not limited by this discussion, however, and may purchase other types of securities and enter into other types of transactions if they are consistent with the investment objective and policies and the statutory requirements to which the Portfolio is subject.

Asset-Backed Securities represent interests in pools of mortgages, loans, receivables, or other assets. Payment of interest and repayment of principal may be largely dependent upon the cash flows generated by the assets backing the securities and, in certain cases, supported by letters of credit, surety bonds, or other credit enhancements. Asset-backed security values may also be affected by other factors including changes in interest rates, the availability of information concerning the pool and its structure, the creditworthiness of the servicing agent for the pool, the originator of the loans or receivables, or the entities providing the credit enhancement. In addition, these securities may be subject to prepayment risk.

Cash Management. The Portfolio can hold uninvested cash or can invest it in cash equivalents such as money market securities, repurchase agreements, or shares of money market or short-term bond funds, including the Federated funds. Generally, these securities offer less potential for gains than other types of securities.

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Dollar-Weighted Average Maturity is derived by multiplying the value of each investment by the time remaining to its maturity, adding these calculations, and then dividing the total by the value of the fund's portfolio. An obligation's maturity is typically determined on a stated final maturity basis, although there are some exceptions to this rule. For example, if it is probable that the issuer of an instrument will take advantage of a maturity-shortening device, such as a call, refunding, or redemption provision, the date on which the instrument will probably be called, refunded, or redeemed may be considered to be its maturity date. Also, the maturities of mortgage securities, including collateralized mortgage obligations and some asset-backed securities, are determined on a weighted average life basis, which is the average time for principal to be repaid. For a mortgage security, this average time is calculated by estimating the timing of principal payments, including unscheduled prepayments, during the life of the mortgage. The weighted average life of these securities is likely to be substantially shorter than their stated final maturity.

Futures Contracts. In purchasing a futures contract, the buyer agrees to purchase a specified underlying instrument at a specified future date. In selling a futures contract, the seller agrees to sell a specified underlying instrument at a specified future date. The price at which the purchase and sale will take place is fixed when the buyer and seller enter into the contract. Some currently available futures contracts are based on specific securities, such as U.S. Treasury bonds or notes, some are based on indices of securities prices, and some are based on Eurodollars. Futures can be held until their delivery dates, or can be closed out by an offsetting purchase or sale before then if a liquid secondary market is available. Positions in Eurodollar futures reflect market expectations of forward levels of three-month London Interbank Offered Rate (LIBOR).

The value of a futures contract tends to increase and decrease in tandem with the value of its underlying instrument. Therefore, purchasing futures contracts will tend to increase the Portfolio's exposure to positive and negative price fluctuations in the underlying instrument, much as if it had purchased the underlying instrument directly. When the Portfolio sells a futures contract, by contrast, the value of its futures position will tend to move in a direction contrary to the market. Selling futures contracts, therefore, will tend to offset both positive and negative market price changes, much as if the underlying instrument had been sold.

Futures Margin Payments. The purchaser or seller of a futures contract is not required to deliver or pay for the underlying instrument unless the contract is held until the delivery date. However, both the purchaser and seller are required to deposit "initial margin" with a futures broker, known as a futures commission merchant (FCM), when the contract is entered into. Initial margin deposits are typically equal to a percentage of the contract's value. If the value of either party's position declines, that party will be required to make additional "variation margin" payments to settle the change in value on a daily basis. The party that has a gain may be entitled to receive all or a portion of this amount. Initial and variation margin payments do not constitute purchasing securities on margin for purposes of the Portfolio's investment limitations. In the event of the bankruptcy of a FCM that holds margin on behalf of the Portfolio, the fund may be entitled to return of margin owed to it only in proportion to the amount received by the FCM's other customers, potentially resulting in losses to the Portfolio.

Illiquid Securities cannot be sold or disposed of in the ordinary course of business at approximately the prices at which they are valued. Difficulty in selling securities may result in a loss or may be costly to the Portfolio. In determining the liquidity of the Portfolio's investments, the Trust's Investment Advisor may consider various factors, including (1) the frequency and volume of trades and quotations, (2) number of dealers and prospective purchasers in the market place, (3) dealer undertakings to make a market, and (4) the nature of the security and the market in which it trades (including any demand, put, or tender features; the mechanics and other requirements for transfer; any letters of credit or other credit enhancement features; any ratings; the number of holders, the method of

soliciting offers; the time required to dispose of the security; and the ability to assign or offset the rights and obligations of the security).

Indexed Securities are instruments whose prices are indexed to the prices of other securities, securities indices, currencies, inflation measures, or other financial indicators.

Indexed securities typically, but not always, are debt securities or deposits whose value at maturity or coupon rate is determined by reference to a specific instrument, statistic, or measure. Inflation-protected securities, for example, can be indexed to a measure of inflation, such as the Consumer Price Index (CPI).

The performance of indexed securities depends to a great extent on the performance of the security, currency, or other instrument or measure to which they are indexed, and may also be influenced by interest rate changes in the United States and abroad. Indexed securities may be more volatile than the underlying instruments or measures. Indexed securities are also subject to the credit risks associated with the issuer of the security, and their values may decline substantially if the issuer's creditworthiness deteriorates. Recent issuers of indexed securities have included banks, corporations, the U.S. Treasury, and certain other U.S. government agencies. In calculating the Portfolio's dividends, index-based adjustments may be considered income.

Investment Grade Debt Securities include all types of debt instruments that are of medium and high quality. Investment grade debt securities include repurchase agreements collateralized by U.S. Government securities as well as repurchase agreements collateralized by equity securities, noninvestment-grade debt, and all other instruments in which the Portfolio can perfect a security interest, provided the repurchase agreement counterparty has an investment grade rating. Investment grade debt securities may possess speculative characteristics and may be sensitive to interest rate and economic changes and to changes in the financial conditions of issuers. An investment grade rating means the security or issuer is rated investment grade by an NRSRO (for example, Moody's Investors Service, Inc.), or is unrated but considered to be of equivalent quality by the Trust's Investment Advisor.

Mortgage Securities are issued by government and non-government entities such as banks, mortgage lenders, or other institutions. A mortgage security is an obligation of the issuer backed by a mortgage or pool of mortgages or a direct interest in an underlying pool of mortgages. Some mortgage securities, such as collateralized mortgage obligations (or "CMOs"), make payments of both principal and interest at a range of specified intervals; others make semiannual interest payments at a predetermined rate and repay principal at maturity (like a typical bond). Mortgage securities are based on different types of mortgages, including those on commercial real estate or residential properties. Stripped mortgage securities are created when the interest and principal components of a mortgage security are separated and sold as individual securities. In the case of a stripped mortgage security, the holder of the "principal-only" (PO) security receives the principal payments made by the underlying mortgage, while the holder of the "interest-only" (IO) security receives interest payments from the same underlying mortgage. Fannie Maes and Freddie Macs are pass-through securities issued by Fannie Mae and Freddie Mac, respectively. Fannie Mae and Freddie Mac, which guarantee payment of interest and repayment of principal on Fannie Maes and Freddie Macs, respectively, are federally chartered corporations supervised by the U.S. government that act as governmental instrumentalities under authority granted by Congress. Fannie Mae and Freddie Mac are authorized to borrow from the U.S. Treasury to meet their obligations. Fannie Mae and Freddie Mac are not backed by the full faith and credit of the U.S. government.

The value of mortgage securities may change due to shifts in the market's perception of issuers and changes in interest rates. In addition, regulatory or tax changes may adversely affect the mortgage securities market as a whole. Non-government mortgage securities may offer higher yields than those issued by government entities, but also may be subject to greater price changes than government issues. Mortgage securities are subject to prepayment risk, which is the risk that early principal payments

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made on the underlying mortgages, usually in response to a reduction in interest rates, will result in the return of principal to the investor, causing it to be invested subsequently at a lower current interest rate. Alternatively, in a rising interest rate environment, mortgage security values may be adversely affected when prepayments on underlying mortgages do not occur as anticipated, resulting in the extension of the security's effective maturity and the related increase in interest rate sensitivity of a longer-term instrument. The prices of stripped mortgage securities tend to be more volatile in response to changes in interest rates than those of non-stripped mortgage securities.

To earn additional income for the Portfolio, the Trust's Investment Advisor may use a trading strategy that involves selling (or buying) mortgage securities and simultaneously agreeing to purchase (or sell) mortgage securities on a later date at a set price. This trading strategy may increase interest rate exposure and result in an increased portfolio turnover rate, which increases costs and may increase taxable gains.

Preferred Securities represent an equity or ownership interest in an issuer that pays dividends at a specified rate and that has precedence over common stock in the payment of dividends. In the event an issuer is liquidated or declares bankruptcy, the claims of owners of bonds take precedence over the claims of those who own preferred securities and common stock.

Real Estate Investment Trusts. Real estate investment trusts issue debt securities to fund the purchase and/or development of commercial properties. The value of these debt securities may be affected by changes in the value of the underlying property owned by the trusts, the creditworthiness of the trusts, interest rates, and tax and regulatory requirements. Real estate investment trusts are dependent upon management skill and the cash flow generated by the properties owned by the trusts. Real estate investment trusts are at the risk of the possibility of failing to qualify for tax-free status of income under the Internal Revenue Code.

Repurchase Agreements involve an agreement to purchase a security and to sell that security back to the original seller at an agreed-upon price. The resale price reflects the purchase price plus an agreed-upon incremental amount which is unrelated to the coupon rate or maturity of the purchased security. As protection against the risk that the original seller will not fulfill its obligation, the securities are held in a separate account at a bank, marked-to-market daily, and maintained at a value at least equal to the sale price plus the accrued incremental amount. The value of the security purchased may be more or less than the price at which the counterparty has

agreed to purchase the security. In addition, delays or losses could result if the other party to the agreement defaults or becomes insolvent. The Portfolio will engage in repurchase agreement transactions with parties whose creditworthiness has been reviewed and found satisfactory by the Trust's Investment Advisor.

Restricted Securities are subject to legal restrictions on their sale. Difficulty in selling securities may result in a loss or be costly to the Portfolio. Restricted securities generally can be sold in privately negotiated transactions, pursuant to an exemption from registration under the Securities Act of 1933 (1933 Act), or in a registered public offering. Where registration is required, the holder of a registered security may be obligated to pay all or part of the registration expense, and a considerable period may elapse between the time it decides to seek registration and the time it may be permitted to sell a security under an effective registration statement. If, during such a period, adverse market conditions were to develop, the holder might obtain a less favorable price than prevailed when it decided to seek registration of the security.

Reverse Repurchase Agreements. In a reverse repurchase agreement, the Portfolio sells a security to another party, such as a bank or broker-dealer, in return for cash and agrees to repurchase that security at an agreed-upon price and time. The Portfolio will enter into reverse repurchase agreements with parties whose creditworthiness has been reviewed and found satisfactory by the Trust's Investment Advisor. Such transactions may increase fluctuations in the market value of the Portfolio's assets and in the Portfolio's yield and may be viewed as a form of leverage.

Rights as an Investor. The Portfolio does not intend to direct or administer the day-to-day operations of any company. The Portfolio, however, may exercise its rights as a creditor and may communicate its views on important matters of policy to management, the Board of Directors, shareholders of a company, and holders of other securities of the company when MMDT determines that such matters could have a significant effect on the value of the Portfolio's investment in the company. The activities in which the Portfolio may engage, either individually or in conjunction with other funds advised by the Trust's Investment Advisor and its affiliates, may include, among others, supporting or opposing proposed changes in a company's corporate structure or business activities; seeking changes in a company's directors or management; seeking changes in a company's direction or policies; seeking the sale or reorganization of the company or a portion of its assets; supporting or opposing third-party takeover efforts; supporting the filing of a bankruptcy petition; or foreclosing on collateral securing a security. This area of corporate activity is increasingly prone to litigation and it is possible that the Portfolio could be involved in lawsuits related to such activities. MMDT, through the Trust's Investment Advisor, will monitor such activities with a view to mitigating, to the extent possible, the risk of litigation against the Portfolio and the risk of actual liability if the Portfolio is involved in litigation. No guarantee can be made, however, that litigation against the Portfolio will not be undertaken or liabilities incurred.

Securities Lending. The Portfolio may lend portfolio securities to borrowers that the Trust's Investment Advisor deems creditworthy. In return, the Portfolio receives cash or liquid securities from the borrower as collateral. The borrower must furnish additional collateral if the market value of the loaned securities increases. Also, the borrower must pay the Portfolio the equivalent of any dividends or interest received on the loaned securities. The Portfolio will reinvest cash collateral in securities that qualify as an acceptable investment for the Portfolio. However, the Portfolio must pay interest to the borrower for the use of cash collateral. Investing this cash subjects that investment, as well as the securities loaned, to market appreciation or depreciation. Loans are subject to termination at the option of the Portfolio or the borrower. The Portfolio will not have the right to vote on securities while they are on loan. However, the Portfolio will attempt to terminate a loan in an effort to reacquire the securities in time to vote on matters that are deemed to be material by the Trust's Investment Advisor. There can be no assurance that the Portfolio will have sufficient

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notice of such matters to be able to terminate the loan in time to vote thereon. The Portfolio may pay administrative and custodial fees in connection with a loan and may pay a negotiated portion of the interest earned on the cash collateral to a securities lending agent or broker.

Swap Agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the Portfolio's exposure to long- or short-term interest rates (in the United States or abroad), foreign currency values, mortgage securities, corporate borrowing rates, or other factors such as security prices or inflation rates. Swap agreements can take many different forms and are known by a variety of names, including interest rate swaps (where the parties exchange a floating rate for a fixed rate), total return swaps (where the parties exchange a floating rate for the total return of a security or index), and credit default swaps (where one party pays a fixed rate and the other agrees to buy a specific issuer's debt at par upon the occurrence of certain agreed events, including for example, if the issuer is bankrupt, defaults on any of its debt obligations, or makes arrangements with a creditor to modify a debt obligation).

In a typical cap or floor agreement, one party agrees to make payments only under specified circumstances, usually in return for payment of a fee by the other party. For example, the buyer of an interest rate cap obtains the right to receive payments to the extent that a specified interest rate exceeds an agreed-upon level, while the seller of an interest rate floor is obligated to make payments to the extent that a specified interest rate falls below an agreed upon level. An interest rate collar combines elements of buying a cap and selling a floor.

Swap agreements will tend to shift the Portfolio's investment exposure from one type of investment to another. For example, if the Portfolio agreed to exchange payments in dollars for payments in foreign currency, the swap agreement would tend to decrease the Portfolio's exposure to U.S. interest rates and increase its exposure to foreign currency and interest rates. Caps and floors have an effect similar to buying or writing options. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Portfolio's investments and its share price and yield. Swap agreements also may allow the Portfolio to acquire or reduce credit exposure to a particular issuer. The most significant factor in the performance of swap agreements is the change in the factors that determine the amounts of payments due to and from the Portfolio. If a swap agreement calls for payments by the Portfolio, the Portfolio must be prepared to make such payments when due. In the case of a physically settled credit default swap written by the Portfolio, the Portfolio must be prepared to pay par for and take possession of eligible debt of a defaulted issuer. If a swap counterparty's credit-worthiness declines, the risk that it may not perform may increase, potentially resulting in a loss to the Portfolio. In the case of a credit default swap written by the Portfolio, the Portfolio will experience a loss if a credit event occurs and the credit of the underlying referenced entity (the debt issuer as to which credit protection has been written) has deteriorated. Although there can be no assurance that the Portfolio will be able to do so, the Portfolio may be able to reduce or eliminate its exposure under a swap agreement either by assignment or other disposition, or by entering into an offsetting swap agreement with the same party or a similarly creditworthy party. The Portfolio may have limited ability to eliminate its exposure under a credit default swap if the credit of the underlying referenced entity has declined.

Temporary Investments. The Portfolio reserves the right to invest without limitation in investment grade money market or short-term debt instruments for temporary purposes.

Variable and Floating Rate Securities provide for periodic adjustments in the interest rate paid on the security. Variable rate securities provide for a specified periodic adjustment in the interest rate, while floating rate securities have interest rates that change whenever there is a change in a designated benchmark rate or the issuer's credit quality. Some variable or floating rate securities are structured with put features that permit holders to demand payment of the unpaid principal balance plus accrued interest from the issuers or certain financial intermediaries.

When-Issued and Forward Purchase or Sale Transactions involve a commitment to purchase or sell specific securities at a predetermined price or yield in which payment and delivery take place after the customary settlement period for that type of security. Typically, no interest accrues to the purchaser until the security is delivered.

When purchasing securities pursuant to one of these transactions, the purchaser assumes the rights and risks of ownership, including the risks of price and yield fluctuations and the risk that the security will not be issued as anticipated. Because payment for the securities is not required until the delivery date, these risks are in addition to the risks associated with the Portfolio's investments. If the Portfolio remains substantially fully invested at a time when a purchase is outstanding, the purchases may result in a form of leverage. When the Portfolio has sold a security pursuant to one of these transactions, the Portfolio does not participate in further gains or losses with respect to the security. If the other party to a delayed-delivery transaction fails to deliver or pay for the securities, the Portfolio could miss a favorable price or yield opportunity or suffer a loss.

The Portfolio may renegotiate a when-issued or forward transaction and may sell the underlying securities before delivery, which may result in capital gains or losses for the Portfolio.

Zero Coupon Bonds do not make interest payments; instead, they are sold at a discount from their face value and are redeemed at face value when they mature. Because zero coupon bonds do not pay current income, their prices can be more volatile than other types of fixed-income securities when interest rates change. In calculating the Portfolio's dividend, a portion of the difference between a zero coupon bond's purchase price and its face value is considered income.

How Dividends and Capital Gains, Yield, and Net Asset Value Are Determined

Dividends and Capital Gains

The Portfolio earns interest, dividends, and other income from its investments, and distributes this income (less expenses) to participants as dividends. Dividends are calculated and accrued based on the declared daily rate, and paid monthly. The Portfolio also realizes capital gains from its investments, and distributes these gains (less any realized capital losses) to participants as capital gain distributions.

Your dividends and capital gain distributions will automatically be reinvested into the account unless otherwise instructed by an authorized representative. Dividend amounts paid are available the next business day by calling Participant Services or by visiting the MyMMDT Account Access.

Yield

The annualized seven-day and annualized monthly yields reflect an average of the yield over the past seven days or month. A participant may call Participant Services or visit MyMMDT.com for a current yield quote. The current yield refers to the income generated by an investment in the Portfolio over a period of time expressed as an annual percentage rate.

Net Asset Value

The net asset value (NAV) per unit of the Portfolio is normally calculated as of the close of regular trading on the New York Stock Exchange ("NAV Determination Time"), which is normally 4:00 p.m. ET, on each day that both of the New York Stock Exchange and the Federal Reserve Bank are open. The time as of when NAV is determined, and when orders must be placed, may be changed by the Trust's Investment Advisor, subject to approval from the Treasurer. The Portfolio's assets normally are valued primarily on the basis of information furnished by a pricing service or market quotations. Certain short-term securities are valued on the basis of amortized

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cost. If market quotations or information furnished by a pricing service is not readily available or does not accurately reflect fair value for a security, or if a security's value has been materially affected by events occurring after the close of the exchange or market on which the security is principally traded, that security will be valued by another method that the Portfolio's Investment Advisor believes accurately reflects fair value in accordance with the Portfolio's fair value pricing policies. For example, arbitrage opportunities may exist when trading in a portfolio security or securities is halted and does not resume before the Portfolio calculates its NAV. These arbitrage opportunities may enable short-term traders to dilute the NAV of long-term investors. Securities trading in overseas markets present time zone arbitrage opportunities when events affecting portfolio security values occur after the close of the overseas market but prior to the close of the U.S. market. Fair value pricing may be used for high yield debt and floating rate loans when available pricing information is stale or is determined for other reasons not to accurately reflect fair value. To the extent the Portfolio invests in other pooled investment vehicles, the Portfolio will calculate its NAV using the NAV of the underlying pooled investment vehicles in which it invests, as described in the prospectuses of the underlying pooled investment vehicles. The Portfolio may invest in Federated funds that use the same fair value pricing policies as the Portfolio or in Federated funds that are money market funds. A security's valuation may differ depending on the method used for determining value. Fair valuation of the Portfolio's securities can serve to reduce arbitrage opportunities available to short-term traders, but there is no assurance that fair value pricing policies will prevent dilution of the Portfolio's NAV by short-term traders.

Investments in the Portfolio are not a deposit of a bank and are neither insured nor guaranteed by the Commonwealth of Massachusetts, the Federal Deposit Insurance Corporation (FDIC), the U.S. government, or any of its agencies. Although the Portfolio's investment objective is to generate returns that exceed the Barclays 1–5 Year Government/Credit Bond Index, there is no guarantee it will be able to do so, and it is possible to lose money by investing in the Portfolio.

Trust Investment Advisor, Servicing Agents, and Custodian

The Trust has retained as its investment advisor Federated Investment Counseling, a wholly owned subsidiary of Federated Investors, Inc. (Collectively, Federated Investment Counseling, Federated Investors, Inc. and their affiliates are referred to as Federated.) Pursuant to a contract dated September 13, 2012, including any extensions thereto, effective March 4, 2013, Federated Investment Counseling will provide the Trust with advice and assistance in the selection of portfolio investments. Federated also will provide all necessary office space, facilities, and personnel; assist in providing participant communications; pay all expenses of the Portfolio (see "Expenses of the Portfolio"); and generally maintain the Portfolio's organization. Federated Investment Counseling and other subsidiaries of Federated Investors, Inc. advise approximately 137 equity, fixed-income and money market mutual funds as well as a variety of other pooled investment vehicles, private investment companies and customized separately managed accounts (including non-U.S./offshore funds) which totaled more than $370 billion in assets as of December 31, 2012.

Federated provides ongoing communications and education services for members and participants.

Boston Financial Data Services (BFDS) is transfer agent to the Trust and provides such services as maintaining and servicing participant account records and distributing dividends.

State Street Bank and Trust Company of Boston (State Street) has been selected as custodian of the assets of the Trust. State Street has one of the largest custody operations in the industry. State Street also determines the NAV and income distributions of the Trust assets and maintains the portfolio and general accounting records for the Trust.

Expenses of the Portfolio

The Trust pays one all-inclusive management fee to Federated for investment management, custody, administration, and other participant services. The fee is accrued each day and is paid monthly at an annual percentage rate determined using the fee schedule that follows. Federated is responsible for paying all operating expenses of the Trust (excluding expenses of the Trustee, brokerage fees, commissions, taxes, and extraordinary nonrecurring expenses). No direct fees are charged to participants.

AVERAGE NET ASSETS ANNUALIZED ($ MILLIONS)	FEE RATE
Assets up to but not including $100 million	0.11%
Assets from $100 million up to but not including $200 million	0.10%
Assets from $200 million up to but not including $300 million	0.095%
Assets equal to or in excess of $300 million	0.09%

Annualized fee rates are charged in a tiered fashion such that 0.11% is charged on average net assets up to but not including $100 million, 0.10% is charged on amounts from $100 million to but not including $200 million, and so on.

The sole Trustee of MMDT is the State Treasurer, who is supported by an Investment Advisory Council.

Legal Considerations

MMDT is not a mutual fund and is exempted from the Investment Company Act of 1940. An investment in MMDT is not a deposit of a bank and is not insured or guaranteed by the FDIC, the Commonwealth of Massachusetts, the U.S. government, or any of its agencies. For more information about MMDT's structure, please see "Structure and Purpose" and "Authority for Organization."

Annual Audit

An independent registered public accounting firm will audit the Portfolio's financial statements following the close of each fiscal year. The audit will include a physical count of securities held by the custodian, State Street, and a review of the adequacy of controls through a systems review and evaluation. An annual report including the Auditor's opinion will be issued to each participant of record as of June 30, the close of the Portfolio's fiscal year. Federated will pay all costs of conducting the audit and issuing the annual report.

Advisory Board

An Advisory Board, whose members have been chosen by the State Treasurer, has been established to serve as a liaison to participants in the Trust, the State Treasurer as Trustee of the Trust, and the Trust's Investment Advisor. The Board is comprised of officials of entities eligible to participate in the Trust and a representative of the State Treasurer, and meets periodically.

Changes in Policies and Regulations

Under the Trust's enabling legislation and Declaration of Trust, the Treasurer of the Commonwealth has the sole authority to make changes in the policies and regulations governing the operations of the Trust, and to take certain actions that could increase the expenses of the Trust to account holders. The authority to declare suspensions of business exists primarily to protect unit holders in the event of unusual or unforeseen circumstances arising in the Portfolio's operations.

At the present time, the Treasurer has no plans to use such authority except in the event of emergencies such as those described in "Business Days," or if the Treasurer determines that failure to act under the circumstances could have a material adverse effect upon the unit holders of the Portfolio. The Treasurer hereby assures participants that no actions either changing the Portfolio Investment Policies and Restrictions or increasing the expenses of the Portfolio will be initiated without prior written notice to all affected parties unless such changes are made pursuant to legislation. Unless otherwise noted, whenever an investment policy or limitation states a maximum percentage of the Portfolio's assets that may be invested in any security or other asset, or sets forth a policy regarding quality standards, such standard or percentage limitation will be determined immediately after and as a result of the Portfolio's acquisition of such security or other asset. Accordingly, any subsequent change in values, net assets, or other circumstances will not be considered when determining whether the investment complies with the Portfolio's investment policies and limitations.

MMDT Suite of Products

To facilitate your investment in the Portfolio, MMDT Participant Services (Participant Services) has created MyMMDT. MyMMDT includes the MyMMDT participant website, located at MyMMDT.com; MyMMDT Account Access online, a voice response unit; and Mobile Account Access. MyMMDT Account Access is a robust, user-friendly tool that will enable you to place transactions in the Portfolio, perform inquiries on your accounts, review Portfolio performance information, and tutorials.

You may obtain all forms necessary to participate in MMDT through the participant website located at MyMMDT.com.

How to Contact Participant Services

You may contact Participant Services by telephone at 1-888-965-MMDT (6638) during the hours of 8:00 a.m. – 6:00 p.m. ET on any business day.

You also may contact Participant Services by email at MMDTParticipantServices@federatedinv.com.

The mailing address for Participant Services is P.O. Box 8699, Boston, MA 02266-8699, and the facsimile number is 617-235-7171.

Please have your Participant ID# and PIN, each as described in the following sections, readily available when you contact Participant Services, as you will be asked to provide such information for security purposes.

New Participant Enrollment in MMDT

To enroll in MMDT, complete a New Account Application and Designating Authorized Representatives Form, and submit such forms to Participant Services. You are required to complete a separate New Account Application for each account that you wish to establish.

Upon receipt and review of the New Account Application and Designating Authorized Representatives Form, Participant Services will establish the relationship. New participants to MMDT will be assigned a single participant identification number (Participant ID#), which is a unique, five digit numeric identifier. You also will be assigned a separate account number for each account that you have established.

Authorized Representative Designation

You are required to complete a Designating Authorized Representatives Form to specify those individuals who are authorized to sign documentation, execute transactions and perform inquiry functions on behalf of your account. There is no set number of individuals that may be so authorized.

Participant Services will mail unique, six-digit PINs to all authorized representatives who are listed on the Designating Authorized Representatives Form. For security reasons, your authorized representatives should treat PINs as personal and confidential.

You are required to submit a new Designating Authorized Representatives Form if you want to include additional individuals as authorized representatives. You are required to submit a new Designating Authorized Representatives Form, or an Authorized Representative Deletion Form, if you want to delete individuals from the list of authorized representatives. Participant Services will rely upon the accuracy and completeness of a Designating Authorized Representatives Form, and will accept directions from those individuals listed therein, until such time as the Designating Authorized Representatives Form is superseded, as described herein.

General Instructions for Placing Transactions with the Portfolio

- To transact in the Portfolio, you must contact Participant Services by telephone, transmit an instruction through MyMMDT Account Access, or mail a written request. **Do not attempt to submit or cancel transactions to Participant Services by email, as such transactions will not be honored.**
- All transaction instructions must identify the Participant ID#, Portfolio number 596, and the applicable account number. Authorized representatives also will be required to verify their PIN.
- All completed transactions receive a confirmation number. This is your notification that MMDT has received your request.
- All transactions may be entered with a future transaction date up to 90 business days in advance.
- If your transaction request is received after the NAV Determination Time, it will be processed as of the next NAV Determination Time (normally 4:00 p.m. ET on the next business day). See "Purchases in the Portfolio."
- For transactions conducted through the MyMMDT Account Access online, the use of an Internet browser with 128-bit encryption is recommended.

Warning Calls for Large Transactions

To assist the Trust's Investment Advisor in managing the Portfolio effectively, we ask that participants provide advance notice for large purchases or redemptions by calling Participant Services.

We ask that participants provide one-day advance notice for purchases or redemptions from $1 million to $5 million, or two-day advance notice for purchases or redemptions in excess of $5 million.

Purchases in the Portfolio

Purchases in the Portfolio may be made on any business day in one of four ways, as described below.

1. By Wire

Purchases in any Portfolio account may be made by wiring federal funds. The following information should be included on the wire advice in order to ensure proper credit to your account:

State Street Bank & Trust Company
Boston, MA

Amount (2000): $_____
BNF (4200) = Attn: MMDT #9905-880-2
RFB (4320) = Participant ID #
OBI (6000) = Pool #, MMDT Account Number
Participant Name: _____
ABA (3400) = 011000028
*MMDT Short Term Bond Portfolio – 596

Purchases by wire that are preceded by a telephone call to Participant Services, fax or by an instruction transmitted through the MyMMDT Account Access will be made at the NAV next calculated after your transaction is received. Accordingly, if your transaction request is received after the NAV Determination Time, it will be processed as of the next NAV Determination Time (normally 4:00 p.m. ET on the next business day).

If your transaction request is received prior to the NAV Determination Time (normally 4:00 p.m. ET) on a business day, that day is considered to be your trade date. If your transaction request is received after the NAV Determination Time on a business day, the next business day is considered to be your trade date. Payment must be received and settlement occurs on the next business day after the trade date. You will be entitled to dividends beginning on the day that your transaction is settled.

Participants must contact their bank to initiate a wire to MMDT.

2. By Automated Clearing House (ACH)

Purchases in any Portfolio account may be made by prearranged Automated Clearing House (ACH) instructions. If your ACH transaction request is received by telephone call to Participant Services, fax or by an instruction transmitted through MyMMDT Account Access prior to the NAV Determination Time on a business day, that day is considered to be your trade date. If your ACH transaction request is received after the NAV Determination Time on a business day, the next business day is considered to be your trade date. Settlement occurs on the next business day after the trade date. You will be entitled to dividends beginning on the day that your transaction is settled.

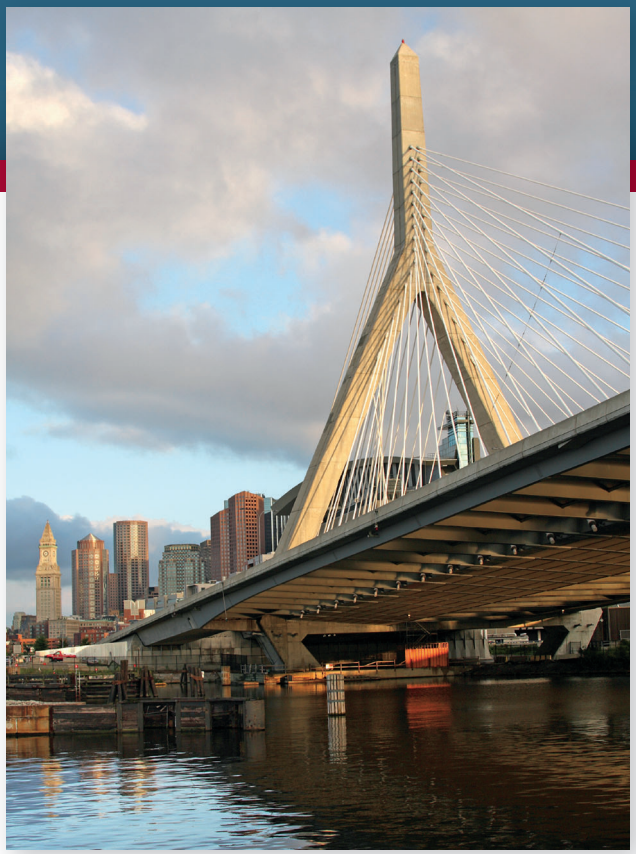
MMDT will debit the prearranged account as provided on the New Account Application or Banking Instructions Form.

3. By Mail

Investments in any Portfolio account may be made by sending a check payable to the "Massachusetts Municipal Depository Trust" to:

MMDT Participant Services
P.O. Box 8699
Boston, MA 02266-8699

Your order will be priced at the NAV next calculated after the Portfolio receives your check and you will be entitled to dividends beginning



the day the check is converted into federal funds (normally the business day after the check is received).

Seven business days should be allowed for a check to clear the bank on which it was drawn. Funds may be withdrawn only on collected balances. Purchase checks should be accompanied by a deposit slip that includes the total amount of the investment, amounts of the individual checks, and the Portfolio account number. Please note that the Portfolio does not accept cash deposits. Deposit slips are available on MyMMDT.com or by calling Participant Services.

4. By Direct Deposit

Direct deposits of certain federal aid and state reimbursements can be arranged. Funds will be credited at the NAV next calculated after your investment is received by Participant Services; your investment will begin to accrue dividends on the first business day following the day the Portfolio receives payment, and may be redeemed by wire the following business day. For further information and necessary forms, please call Participant Services.

Redemptions in the Portfolio

Redemption from an account may be made on any business day, as noted below. Your redemption will be priced at the NAV next calculated after the request is received by the Portfolio.

Note that neither the Trust nor the Trust's Investment Advisor will be responsible for any losses resulting from an unauthorized redemption transaction. Participant Services may record calls or request other verification information for security purposes. You should verify the accuracy of your confirmation statements upon receipt and notify Participant Services immediately of any discrepancies in your account activity.

1. By Wire

You may request a redemption by calling Participant Services, fax or transmitting an instruction through the MyMMDT Account Access. If your transaction request is received prior to the NAV Determination Time (normally 4:00 p.m. ET) on a business day, that day is considered to be your trade date. If your transaction request is received after the NAV Determination Time on a business day, the next business day is considered to be your trade date. You will earn dividends through the trade date and your redemption proceeds normally will be wired the next business day after the trade date.

Bank wire changes may not be made directly on MyMMDT Account Access. Please call Participant Services for instructions on how to designate additional bank accounts for redemptions.

2. By Automated Clearing House (ACH)

Redemptions in any Portfolio account may be made by prearranged Automated Clearing House (ACH) instructions. If your ACH transaction request is received by telephone call to Participant Services, fax or by an instruction transmitted through MyMMDT Account Access prior to the

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NAV Determination Time on a business day, that day is considered to be your trade date. If your ACH transaction request is received after the NAV Determination Time on a business day, the next business day is considered to be your trade date. Settlement occurs on the next business day after the trade date. You will earn dividends through the trade date. Please note that full liquidations cannot be processed by ACH.

3. By Check

Participants may request that the Portfolio issue a check made payable to the participant. Checks will be mailed to the participant's address of record upon receipt of properly authorized instructions. Normally, a check for your redemption proceeds will be mailed to you on the next business day after the trade date, and you will be entitled to dividends through the trade date.

Transfers Between Accounts and Investment Pools

A participant may make transfers between accounts and between investment pools by calling Participant Services, through MyMMDT Account Access, or by mailing or faxing written notification to Participant Services.

Exchange requests are considered to be redemptions and purchases and will be processed in accordance with the sections "Redemptions in the Portfolio" and "Purchases in the Portfolio."

Closing an Account

Participants who wish to close an account with MMDT can process a redemption as described in "Redemptions in the Portfolio" to bring the account to a zero balance. An account can remain on the MMDT system with a zero balance until otherwise notified or be removed from the listing of accounts by request immediately or at a later time.

If the entire balance in an account is withdrawn during the month, the accrued dividends will be sent with the redemption proceeds unless a prior request has been made to pay them on the first business day of the following month.

Audit Confirmation Request

A participant's auditor may submit written requests for confirmations of account balances to Participant Services. Participant Services will respond to such requests, provided that an authorized representative of the participant has executed the auditor's written request.

Business Days

The Trust's Investment Advisor is open for business and the Portfolio's NAV per unit is calculated each day on which both the Federal Reserve Bank and the New York Stock Exchange are open. At no time will Participant Services be closed for more than one day in observance of the same holiday. In the event such a case should arise, the Trust's Investment Advisor would follow the New York Stock Exchange closing schedule.

All holiday announcements will be available on MyMMDT.com and MyMMDT Account Access prior to the upcoming holiday.

The following are the holidays or their observances on which MMDT will normally be closed:

- New Year's Day
- Martin Luther King, Jr. Day
- Presidents Day
- Good Friday
- Memorial Day
- Independence Day
- Labor Day
- Columbus Day – Closed for Transactions but Participant Services will be open for inquiries
- Veterans Day – Closed for Transactions but Participant Services will be open for inquiries
- Thanksgiving Day
- Christmas Day

MMDT reserves the right to suspend the right of redemption or to postpone the date of payment on redemption for any period during which an emergency exists (including any day on which trading on the New York Stock Exchange is suspended or restricted or the Federal Reserve wire transfer system is unavailable), as a result of which disposal of the portfolio securities owned by the Portfolio is not reasonably practicable, or it is not reasonably practicable to determine NAV. The sole Trustee of the MMDT (i.e., the State Treasurer) shall have the sole authority to determine when suspensions of business shall be made.

Transaction Confirmations and Statements

After each account transaction is processed, a confirmation statement reflecting the date, amount, transaction type, and resulting balance will be promptly sent. A monthly account statement reflecting all transactions for the month and the dividend paid will be sent after the close of each month, within five business days. Participants who prefer to suppress the delivery of paper monthly statements or transaction confirmations should contact Participant Services. Account information is also available through the MyMMDT Account Access.

Managed and serviced by subsidiaries
of Federated Investors, Inc.

MMDT Participant Services
PO Box 8699
Boston, MA 02266-8699

1-888-965-MMDT (6638)
MyMMDT.com

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Federated Investment Counseling

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