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FEDERATED PREMIER MUNICIPAL INCOME FUND

Form N-2/A

July 28, 2003

As filed with the Securities and Exchange Commission on July 28, 2003

1940 Act File No. 811-21235

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-2

|   |   |
|---|---|
| REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940 | X |
| Amendment No. 11 .....  | X |

FEDERATED PREMIER MUNICIPAL INCOME FUND

(Exact Name of Registrant as Specified in Charter)

Federated Investors Funds  
5800 Corporate Drive  
Pittsburgh, Pennsylvania 15237-7000  
(Address of Principal Executive Offices)

(412) 288-1900  
(Registrant's Telephone Number)

Leslie K. Ross, Esquire  
Reed Smith LLP  
Federated Investors Tower  
1001 Liberty Avenue  
Pittsburgh, Pennsylvania 15222-3779  
(Name and Address of Agent for Service)  
(Notices should be sent to the Agent for Service)

Copies to:

Matthew G. Maloney, Esquire  
Dickstein, Shapiro & Morin, L.L.P.  
2101 L Street, N.W.  
Washington, D.C. 20037

It is proposed that this filing will become effective immediately upon filing.

CROSS-REFERENCE SHEET  
PARTS A AND B

| ITEM NO. | CAPTION | LOCATION IN PROSPECTUS |
|----------|---------|------------------------|
|----------|---------|------------------------|

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|     |   |   |
|-----|---|---|
| 1.  | Outside Front Cover Page                            | Outside Front Cover Page                                    |
| 2.  | Inside Front and Outside Back                       | Inside Front and Outside Back                               |
| 3.  | Fee Table and Synopsis                              | Summary of Fund Expenses                                    |
| 4.  | Financial Highlights                                | Not Applicable  |
| 5.  | Plan of Distribution                                | Outside Front Cover Page                                    |
| 6.  | Selling Shareholders                                | Not Applicable  |
| 7.  | Use of Proceeds                                     | Use of Proceeds   |
| 8.  | General Description of the Registrant               | Outside Front Cover Page                                    |
| 9.  | Management  | Management of the Fund                                      |
| 10. | Capital Stock, Long-Term Debt and Other Securities  | Shares of Beneficial Interests                              |
| 11. | Defaults and Arrears on Senior Securities           | Not Applicable  |
| 12. | Legal Proceedings                                   | Not Applicable  |
| 13. | Table of Contents of SAI                            | Table of Contents (SAI)                                     |
| 14. | Cover Page of SAI                                   | Cover Page (SAI)  |
| 15. | Table of Contents of SAI                            | Table of Contents (SAI)                                     |
| 16. | General Information and History                     | Appendix A (SAI)  |
| 17. | Investment Objective and Policies                   | Additional Investment Policies                              |
| 18. | Management  | Trustees and Officers (SAI);<br>Advisory and Other Services |
| 19. | Control Persons and Principal Holders of Securities | Not Applicable  |
| 20. | Investment Advisory and Other Services (SAI)        | Investment Advisory and Other Services                      |
| 21. | Brokerage Allocation and Other Practices            | Brokerage Commissions (SAI)                                 |
| 22. | Tax Status  | Not Applicable  |
| 23. | Financial Statements                                | Financial Statements (SAI)                                  |

FEDERATED PREMIER MUNICIPAL INCOME FUND

STATEMENT OF ADDITIONAL INFORMATION

Federated Premier Municipal Income Fund (the "Fund") is a newly organized, diversified, closed-end management investment company. This Statement of Additional Information relating to Common Shares does not constitute a prospectus, but should be read in conjunction with the prospectus relating thereto dated December 19, 2002. This Statement of Additional Information does not include all information that a prospective investor should consider before purchasing Common Shares, and investors should obtain and read the prospectus prior to purchasing such Common Shares. A copy of the prospectus may be obtained without charge by calling 1-800-341-7400. You may also obtain a copy of the prospectus on the Securities and Exchange

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Commission's web site (<http://www.sec.gov>). Capitalized terms used but not defined in this Statement of Additional Information have the meanings ascribed to them in the prospectus.

### TABLE OF CONTENTS

|   | Page |
|---|------|
| Use Of Proceeds.....  | 2    |
| Investment Strategies.....                                    | 2    |
| Fundamental Investment Objective, Policy And Limitations..... | 2    |
| Non-Fundamental Investment Policies.....                      | 4    |
| Investment Securities.....                                    | 5    |
| Management Of The Fund.....                                   | 12   |
| Brokerage Transactions.....                                   | 19   |
| Description Of Shares.....                                    | 20   |
| Repurchase Of Common Shares.....                              | 20   |
| Tax Matters.....  | 22   |
| Performance And Related Comparative Information.....          | 27   |
| Federated Investors, Inc.....                                 | 29   |
| Experts.....  | 30   |
| Additional Information.....                                   | 30   |
| Independent Auditors' Report.....                             | 30   |
| Financial Statements.....                                     | 32   |
| Appendix A Ratings Of Investments.....                        | 34   |

This Statement of Additional Information is dated December 19, 2002 (revised June 30, 2003 and July 28, 2003).

### 34

#### USE OF PROCEEDS

Pending investment in tax exempt securities that meet the Fund's investment objective and policies, the net proceeds of the offering will be invested in high-quality, short-term tax exempt money market securities or in high-quality tax exempt securities with relatively low volatility (such as pre-refunded and intermediate-term bonds), to the extent such securities are available. If necessary to invest fully the net proceeds of the offering immediately, the Fund may also purchase, as temporary investments, short-term taxable investments the income on which is subject to federal regular income tax, and securities of other open- or closed-end investment companies that invest primarily in tax exempt securities of the type in which the Fund may invest directly.

#### INVESTMENT STRATEGIES

Under normal circumstances, the Fund will maintain a dollar-weighted average portfolio maturity of 15 to 30 years and a dollar-weighted average duration of 7 to 13 years.

The Fund's average portfolio maturity represents an average based on the actual stated maturity dates of the debt securities in the Fund's portfolio, except that: (1) variable-rate securities are deemed to mature at the next interest-rate adjustment date, unless subject to a demand feature; (2) variable-rate securities subject to a demand feature are deemed to mature on the longer of the next interest-rate adjustment date or the date on which principal can be recovered through demand; (3) floating-rate securities subject to a demand feature are deemed to mature on the date on which the principal can be recovered through demand; and (4) securities being hedged with futures contracts may be deemed to have a longer maturity, in the case of purchases of futures contracts, and a

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shorter maturity, in the case of sales of futures contracts, than they would otherwise be deemed to have. The average portfolio maturity of the Fund is dollar weighted based upon the market value of the Fund's securities at the time of calculation.

The Fund cannot accurately predict its portfolio turnover rate but anticipates that its annual portfolio turnover rate will not exceed 100%. The Fund generally will not trade securities for the purpose of realizing short-term profits, but it will adjust its portfolio as it deems advisable in view of prevailing or anticipated market conditions to accomplish its investment objective. Other than for consideration of tax consequences, frequency of portfolio turnover will not be a limiting factor if the Fund considers it advantageous to purchase or sell securities.

### FUNDAMENTAL INVESTMENT OBJECTIVE, POLICY AND LIMITATIONS

The following fundamental investment objective, policy and limitations may not be changed by the Fund's Board without the approval of the holders of a majority of (1) the outstanding Common Shares and Preferred Shares (if any) voting together as a class, and (2) the outstanding Preferred Shares (if any), voting as a separate class. When used with respect to particular shares of the Fund, "majority of the outstanding" means (a) 67% or more of the shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy, or (b) more than 50% of the shares, whichever is less.

#### Investment Objectives

The Fund's investment objective is to provide current income exempt from federal income tax, including AMT.

#### Investment Policy

The Fund will invest its assets so that at least 80% of the income that it distributes will be exempt from federal regular income tax.

#### Investment Limitations

##### Concentration

The Fund will not make investments that will result in the concentration of its investments in the securities of issuers primarily engaged in the same industry, but may invest more than 25% of its total assets in securities of issuers in the same economic sector.

##### Diversification of Investments

With respect to securities comprising 75% of the value of its total assets, the Fund will not purchase the securities of any one issuer (other than cash, cash items, securities issued or guaranteed by the government of the United States or its agencies or instrumentalities and repurchase agreements collateralized by such U.S. government securities, and securities of other investment companies) if as a result more than 5% of the value of its total assets would be invested in the securities of that issuer, or it would own more than 10% of the outstanding voting securities of that issuer.

##### Underwriting

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

##### Investing in Real Estate

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The Fund will not buy or sell real estate, although it may invest in tax exempt securities secured by real estate or interests in real estate.

### Investing in Commodities

The Fund may not purchase or sell physical commodities, provided that the Fund may purchase securities of companies that deal in commodities. For purposes of this restriction, investments in transactions involving futures contracts and options, swap transactions, and other financial contracts that settle by payment of cash are not deemed to be investments in commodities.

### Lending

The Fund will not make loans, but may acquire publicly or non-publicly issued tax exempt securities as permitted by its investment objective, policies and limitations.

### Borrowing Money and Issuing Senior Securities

The Fund may borrow money, directly or indirectly, and issue senior securities to the maximum extent permitted under the Investment Company Act of 1940 (the "1940 Act").

For purposes of applying the concentration limitation, securities of the U.S. government, its agencies or instrumentalities, and securities backed by the credit of a governmental entity are not considered to represent industries. However, obligations backed only by the assets and revenues of non-governmental issuers may for this purpose be deemed to be issued by such non-governmental issuers. Thus, the 25% limitation would apply to such obligations.

For the purpose of applying the concentration limitation, a non-governmental issuer will be deemed the sole issuer of a security when its assets and revenues are separate from other governmental entities and its securities are backed only by its assets and revenues. Similarly, in the case of a non-governmental issuer, such as an industrial corporation or a privately owned or operated hospital, if the security is backed only by the assets and revenues of the non-governmental issuer, then such non-governmental issuer would be deemed to be the sole issuer. Where a security is also backed by the enforceable obligation of a superior or unrelated governmental or other entity (other than a bond insurer), it will also be included in the computation of securities owned that are issued by such governmental or other entity. Where a security is guaranteed by a governmental entity or some other facility, such as a bank guarantee or letter of credit, such a guarantee or letter of credit would be considered a separate security and would be treated as an issue of such government, other entity or bank.

## NON-FUNDAMENTAL INVESTMENT POLICIES

The Fund is also subject to the following non-fundamental investment policies, which may be changed by the Board without shareholder approval.

### Short Sales

The Fund will not make any short sale of securities except in conformity with applicable laws, rules and regulations and unless after giving effect to such sale, the market value of all securities sold short does not exceed 25% of the value of the Fund's total assets and the Fund's aggregate short sales of a particular class of securities does not exceed 25% of the then outstanding securities of that class.

### Investing in Other Investment Companies

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The Fund may purchase securities of open-end or closed-end investment companies in compliance with the 1940 Act or any exemptive relief obtained thereunder.

### Exercise of Control

The Fund will not purchase securities of companies for the purpose of exercising control.

### Illiquid Securities

The Fund will not purchase securities for which there is no readily available market, or enter into repurchase agreements or purchase time deposits maturing in more than seven days, if immediately after and as a result, the value of such securities would exceed, in the aggregate, 15% of the Fund's net assets.

## INVESTMENT SECURITIES

The following information supplements the discussion of the Fund's investment securities that are described in the prospectus.

### Fixed Income Securities

Fixed income securities pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a fixed income security must repay the principal amount of the security, normally within a specified time. Fixed income securities provide more regular income than equity securities. However, the returns on fixed income securities are limited and normally do not increase with the issuer's earnings. This limits the potential appreciation of fixed income securities as compared to equity securities.

A security's yield measures the annual income earned on a security as a percentage of its price. A security's yield will increase or decrease depending upon whether it costs less (a discount) or more (a premium) than the principal amount. If the issuer may redeem the security before its scheduled maturity, the price and yield on a discount or premium security may change based upon the probability of an early redemption. Securities with higher risks generally have higher yields.

The Fund may invest in tax exempt securities, which pay interest that is not subject to regular income taxes, including AMT. Typically, states, counties, cities and other political subdivisions and authorities issue tax exempt securities. The market categorizes tax exempt securities by their source of repayment.

Following is a description of non-principal tax exempt securities in which the Fund may invest.

**Variable Rate Demand Instruments.** Variable rate demand instruments are tax exempt securities that require the issuer or a third party, such as a dealer or bank, to repurchase the security for its face value upon demand. The securities also pay interest at a variable rate intended to cause the securities to trade at their face value. The Fund treats demand instruments as short-term securities because their variable interest rate adjusts in response to changes in market rates, even though their stated maturity may extend beyond 13 months.

**Municipal Notes.** Municipal notes are short-term tax exempt

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securities. Many municipalities issue such notes to fund their current operations before collecting taxes or other municipal revenues. Municipalities may also issue notes to fund capital projects prior to issuing long-term bonds. The issuers typically repay the notes at the end of their fiscal year, either with taxes, other revenues or proceeds from newly issued notes or bonds.

**Tax Increment Financing Bonds.** Tax increment financing (TIF) bonds are payable from increases in taxes or other revenues attributable to projects financed by the bonds. For example, a municipality may issue TIF bonds to redevelop a commercial area. The TIF bonds would be payable solely from any increase in sales taxes collected from merchants in the area. The bonds could default if merchants' sales, and related tax collections, failed to increase as anticipated.

**Municipal Mortgage Back Securities.** Municipal mortgage backed securities are special revenue bonds the proceeds of which may be used to provide mortgage loans for single family homes or to finance multifamily housing. Municipal mortgage backed securities represent interests in pools of mortgages. The mortgages that comprise a pool normally have similar interest rates, maturities and other terms. Municipal mortgage backed securities generally have fixed interest rates.

**PACS.** PACs (planned amortization classes) are a sophisticated form of mortgage backed security issued with a companion class. PACs receive principal payments and prepayments at a specified rate. In addition, PACs will receive the companion classes' share of principal payments, if necessary, to cover a shortfall in the prepayment rate. This helps PACs to control prepayment risks by increasing the risks to their companion classes.

### Credit Enhancement

Common types of credit enhancement include guarantees, letters of credit, bond insurance and surety bonds. Credit enhancement also includes arrangements where securities or other liquid assets secure payment of a fixed income security. If a default occurs, these assets may be sold and the proceeds paid to a security's holders. Each form of credit enhancement reduces credit risks by providing another source of payment for a fixed income security.

### Structured Notes

The Fund may invest in "structured" notes, which are privately negotiated debt obligations where the principal and/or interest is determined by reference to the performance of a benchmark asset, market or interest rate, such as selected securities, an index of securities or specified interest rates or the differential performance of two assets or markets, such as indices reflecting taxable and tax exempt bonds. Depending on the terms of the note, the Fund may forgo all or part of the interest and principal that would be payable on a comparable conventional note. The rate of return on structured notes may be determined by applying a multiplier to the performance or differential performance of the referenced index(es) or other assets(s). Application of a multiplier involves leverage that will serve to magnify the potential for gain and the risk of loss.

The Fund currently intends that any use of structured notes will be for the purpose of reducing the interest rate sensitivity of the Fund's portfolio (and thereby decreasing the Fund's exposure to interest rate risk) and, in any event, that the interest income on the notes will normally be exempt from federal income tax. The Fund will only invest in

structured notes if it has received an opinion of counsel for the issuer (or the advice of another authority believed by the Adviser to be reliable) that the interest income on the notes will be exempt from federal income tax. Like other sophisticated strategies, the Fund's use of structured notes may not work as intended; for example, the change in value of the structured notes may not match very closely the change in the value of bonds that the structured notes were purchased to hedge.

#### Derivative Contracts

Derivative contracts are financial instruments that require payments based upon changes in the values of designated (or underlying) securities, currencies, commodities, financial indices or other assets or instruments. Some derivative contracts (such as futures, forwards and options) require payments relating to a future trade involving the underlying asset. Other derivative contracts (such as swaps) require payments relating to the income or returns from the underlying asset or instrument. The other party to a derivative contract is referred to as a counterparty.

Many derivative contracts are traded on securities or commodities exchanges. In this case, the exchange sets all the terms of the contract except for the price. Investors make payments due under their contracts through the exchange. Most exchanges require investors to maintain margin accounts through their brokers to cover their potential obligations to the exchange. Parties to the contract make (or collect) daily payments to the margin accounts to reflect losses (or gains) in the value of their contracts. This protects investors against potential defaults by the counterparty. Trading contracts on an exchange also allows investors to close out their contracts by entering into offsetting contracts.

For example, the Fund could close out an open contract to buy an asset at a future date by entering into an offsetting contract to sell the same asset on the same date. If the offsetting sale price is more than the original purchase price, the Fund realizes a gain; if it is less, the Fund realizes a loss. Exchanges may limit the amount of open contracts permitted at any one time. Such limits may prevent the Fund from closing out a position. If this happens, the Fund will be required to keep the contract open (even if it is losing money on the contract), and to make any payments required under the contract (even if it has to sell portfolio securities at unfavorable prices to do so). Inability to close out a contract could also harm the Fund by preventing it from disposing of or trading any assets it has been using to secure its obligations under the contract.

The Fund may also trade derivative contracts over-the-counter (OTC) in transactions negotiated directly between the Fund and the counterparty. OTC contracts do not necessarily have standard terms, so they cannot be directly offset with other OTC contracts. In addition, OTC contracts with more specialized terms may be more difficult to price than exchange traded contracts.

Depending upon how the Fund uses derivative contracts and the relationships between the market value of a derivative contract and the underlying asset or instrument, derivative contracts may increase or decrease the Fund's exposure to interest rate risks, and may also expose the Fund to liquidity, leverage and tax risks. OTC contracts also expose the Fund to credit risks in the event that a counterparty defaults on the contract.

The Fund may trade in the following types of derivative contracts, as well as combinations of these contracts, including, but not limited to, options on futures contracts, options on forward contracts and options on swaps.



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**Futures Contracts.** Futures contracts provide for the future sale by one party and purchase by another party of a specified amount of an underlying asset or instrument at a specified price, date and time. Entering into a contract to buy an underlying asset is commonly referred to as buying a contract or holding a long position in the asset. Entering into a contract to sell an underlying asset is commonly referred to as selling a contract or holding a short position in the asset. Futures contracts are considered to be commodity contracts. Futures contracts traded OTC are frequently referred to as forward contracts.

The Fund may buy or sell the interest rate futures contracts and index financial futures contracts. The Fund may also buy or sell futures contracts on tax exempt securities and U.S. government and agency securities.

**Options.** Options are rights to buy or sell an underlying asset or instrument for a specified price (the exercise price) during, or at the end of, a specified period. A call option gives the holder (buyer) the right to buy the underlying asset or instrument from the seller (writer) of the option. A put option gives the holder the right to sell the underlying asset or instrument to the writer of the option. The writer of the option receives a payment, or premium, from the buyer, which the writer keeps regardless of whether the buyer uses (or exercises) the option. If the Fund writes options on futures contracts, it will be subject to margin requirements similar to those applied to futures contracts.

**Swaps.** Swaps are contracts in which two parties agree to pay each other (swap) the returns derived from underlying assets or instruments with differing characteristics. Most swaps do not involve the delivery of the underlying assets or instruments by either party, and the parties might not own the assets or instruments underlying the swap. The payments are usually made on a net basis so that, on any given day, the Fund would receive (or pay) only the amount by which its payment under the contract is less than (or exceeds) the amount of the other party's payment. Swap agreements are sophisticated instruments that can take many different forms, and are known by a variety of names including caps, floors and collars. Common swap agreements that the Fund may use include:

**Interest Rate Swaps.** Interest rate swaps are contracts in which one party agrees to make regular payments equal to a fixed or floating interest rate times a stated, notional principal amount of fixed income securities, in return for payments equal to a different fixed or floating rate times the same notional principal amount, for a specific period. For example, a \$10 million LIBOR swap would require one party to pay the equivalent of the London Interbank Offer Rate of interest (which fluctuates) on \$10 million notional principal amount in exchange for the right to receive the equivalent of a stated fixed rate of interest on \$10 million notional principal amount.

**Caps and Floors.** Caps and floors are contracts in which one party agrees to make payments only if an interest rate or index goes above (cap) or below (floor) a certain level in return for a fee from the other party.

**Total Return Swaps.** Total return swaps are contracts in which one party agrees to make payments of the total return from the underlying asset or instrument during the specified period, in return for payments equal to a fixed or floating rate of interest or the total return from another underlying asset or instrument.

**Municipal Market Data Rate Locks.** The Fund may purchase and sell

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Municipal Market Data Rate Locks ("MMD Rate Locks"). An MMD Rate Lock permits the Fund to lock in a specified municipal interest rate for a portion of its portfolio to preserve a return on a particular investment or a portion of its portfolio as a duration management technique or to protect against any increase in the price of securities to be purchased at a later date. The Fund will ordinarily use these transactions as a hedge or for duration or risk management although it is permitted to enter into them to enhance income or gain. An MMD Rate Lock is a contract between the Fund and an MMD Rate Lock provider pursuant to which the parties agree to make payments to each other on a notional amount, contingent upon whether the Municipal Market Data AAA General Obligation Scale is above or below a specified level on the expiration date of the contract. For example, if the Fund buys an MMD Rate Lock and the Municipal Market Data AAA General Obligation Scale is below the specified level on the expiration date, the counterparty to the contract will make a payment to the Fund equal to the specified level minus the actual level, multiplied by the notional amount of the contract. If the Municipal Market Data AAA General Obligation Scale is above the specified level on the expiration date, the Fund will make a payment to the counterparty equal to the actual level minus the specified level, multiplied by the notional amount of the contract. In entering into MMD Rate Locks, there is a risk that municipal yields will move in the direction opposite the direction anticipated by the Fund.

### Short Sales

The Fund may make short sales of securities as part of its overall portfolio management strategy and to offset potential declines in long positions in securities in the Fund's portfolio. A short sale is a transaction in which the Fund sells a security it does not own in anticipation that the market price of that security will decline. Although short sale transactions are not currently available with respect to Municipal Bonds, the Fund may engage in short sales on taxable bonds and on futures contracts with respect to Municipal Bonds and taxable bonds.

When the Fund makes a short sale on a security, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale as collateral for its obligation to deliver the security upon conclusion of the sale. The Fund may have to pay a fee to borrow particular securities and is often obligated to pay over any accrued interest and dividends on such borrowed securities.

If the price of the security sold short increases between the time of the short sale and the time the Fund replaces the borrowed security, the Fund will incur a loss; conversely, if the price declines, the Fund will realize a capital gain. Any gain will be decreased, and any loss increased, by the transaction costs described above. The successful use of short selling may be adversely affected by imperfect correlation between movements in the price of the security sold short and the securities being hedged.

To the extent that the Fund engages in short sales, it will provide collateral to the broker-dealer. A short sale is "against the box" to the extent that the Fund contemporaneously owns, or has the right to obtain at no added cost, securities identical to those sold short. The Fund may also engage in so-called "naked" short sales (i.e., short sales that are not "against the box"), in which case the Fund's losses could theoretically be unlimited in cases where the Fund is unable for whatever reason to close out its short position. The Fund has the flexibility to engage in short selling to the extent permitted by the 1940 Act and rules and interpretations thereunder.

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### Investing In Securities Of Other Investment Companies

The Fund may invest its assets in securities of other open-end or closed-end investment companies, including the securities of affiliated investment companies, as an efficient means of carrying out its investment policies and managing its uninvested cash.

### Temporary Defensive Investments

The Fund may make temporary defensive investments in the following taxable securities:

**Treasury Securities.** Treasury securities are direct obligations of the federal government of the United States.

**Agency Securities.** Agency securities are issued or guaranteed by a federal agency or other government sponsored entity ("GSE") acting under federal authority. The United States supports some GSEs with its full faith and credit. Other GSEs receive support through federal subsidies, loans or other benefits. A few GSEs have no explicit financial support, but are regarded as having implied support because the federal government sponsors their activities.

**Bank Instruments.** Bank instruments are unsecured interest bearing deposits with banks. Bank instruments include bank accounts, time deposits, certificates of deposit and banker's acceptances.

**Corporate Debt Securities.** Corporate debt securities are fixed income securities issued by businesses. Notes, bonds, debentures and commercial paper are the most prevalent types of corporate debt securities.

**Commercial Paper.** Commercial paper is an issuer's obligation with a maturity of less than nine months. Companies typically issue commercial paper to pay for current expenditures. Most issuers constantly reissue their commercial paper and use the proceeds (or bank loans) to repay maturing paper. If the issuer cannot continue to obtain liquidity in this fashion, its commercial paper may default. The short maturity of commercial paper reduces both the market and credit risks as compared to other debt securities of the same issuer.

**Repurchase Agreements.** Repurchase agreements are transactions in which the Fund buys a security from a dealer or bank and agrees to sell the security back at a mutually agreed upon time and place. The repurchase price exceeds the sale price, reflecting the Fund's return on the transaction. This return is unrelated to the interest rate on the underlying security. The Fund will enter into repurchase agreements only with banks and other recognized financial institutions, such as securities dealers, deemed creditworthy by the Adviser.

The Fund's custodian or subcustodian will take possession of the securities subject to repurchase agreements. The Adviser or subcustodian will monitor the value of the underlying security each day to ensure that the value of the security always equals or exceeds the repurchase price.

Repurchase agreements are subject to credit risks.

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MANAGEMENT OF THE FUND

Board of Trustees

The Board is responsible for managing the Fund's business affairs and for exercising all the Fund's powers except those reserved for the shareholders. The following tables give information about each Board member and the senior officers of the Fund. Where required, the tables separately list Board members who are "interested persons" of the Fund (i.e., "Interested" Board members) and those who are not (i.e., "Independent" Board members). Unless otherwise noted, the address of each person listed is Federated Investors Tower, 1001 Liberty Avenue, Pittsburgh, PA. The Federated Fund Complex consists of 44 investment companies (comprising 139 portfolios). Unless otherwise noted, each Board member oversees all portfolios in the Federated Fund Complex; serves for an indefinite term; and also serves as a Board member of the following investment company complexes: Banknorth Funds--five portfolios; CCMF Funds--two portfolios; Regions Funds--eight portfolios; Riggs Funds--nine portfolios; and WesMark Funds--five portfolios.

Interested Trustees Background And Compensation

| Name                    | Birth Date                 | Address                       | Principal Occupation(s) for Past Five Years, Other Directorships Held and Previous Positions  | Aggregate Compensation From Fund + | Total Compensation From Federated Fund Complex (past calendar year) |
|-------------------------|----------------------------|-------------------------------|---|------------------------------------|---|
| John F. Donahue*        | Birth Date: July 28, 1924  | CHAIRMAN AND TRUSTEE (1) (2)  | Principal Occupations: Chairman and Director or Trustee of the Federated Fund Complex; Chairman and Director, Federated Investors, Inc.; Chairman, Federated Investment Management Company, Federated Global Investment Management Corp. and Passport Research, Ltd. Previous Positions: Trustee, Federated Investment Management Company and Chairman and Director, Federated Investment Counseling.   | \$0                                | \$0   |
| J. Christopher Donahue* | Birth Date: April 11, 1949 | PRESIDENT AND TRUSTEE (1) (2) | Principal Occupations: President and Chief Executive Officer of the Federated Fund Complex; Director or Trustee of some of the Funds in the Federated Fund Complex; President, Chief Executive Officer and Director, Federated Investors, Inc.; President, Chief Executive Officer and Trustee, Federated Investment Management Company; Trustee, Federated Investment Counseling; President, Chief Executive Officer and Director, Federated | \$0                                | \$0   |

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Global Investment Management Corp.; President and Chief Executive Officer, Passport Research, Ltd.; Trustee, Federated Shareholder Services Company; Director, Federated Services Company. Previous Position: President, Federated Investment Counseling.

|  |  |     |              |
|--|--|-----|--------------|
| Lawrence D. Ellis, M.D.*<br>Birth Date:<br>October 11, 1932<br>3471 Fifth Avenue Suite 1111<br>Pittsburgh, PA<br>TRUSTEE(1)(2) | Principal Occupations: Director or Trustee of the Federated Fund Complex; Professor of Medicine, University of Pittsburgh; Medical Director, University of Pittsburgh Medical Center Downtown; Hematologist, Oncologist and Internist, University of Pittsburgh Medical Center. Other Directorships Held: Member, National Board of Trustees, Leukemia Society of America. Previous Positions: Trustee, University of Pittsburgh; Director, University of Pittsburgh Medical Center. | \$0 | \$117,117.17 |
|--|--|-----|--------------|

\* Family relationships and reasons for "interested" status: John F. Donahue is the father of J. Christopher Donahue; both are "interested" due to the positions they hold with Federated Investors, Inc. and its subsidiaries. Lawrence D. Ellis, M.D. is "interested" because his son-in-law is employed by, Federated Securities Corp., a subsidiary of Federated Investors, Inc.

+ Board members will not receive compensation from the Fund during the Fund's first fiscal year. Thereafter, the Fund will be subject to a base charge of \$250 per quarter; the remainder of the "Total Compensation" in column two will be allocated to each fund in the Federated Fund Complex based on the net assets of each such fund.

Independent Trustees Background And Compensation

| Name<br>Address<br>Positions Held<br>with Fund  | Principal Occupation(s) for Past Five Years,<br>Other Directorships Held and Previous<br>Positions  | Aggregate<br>Compensation<br>From<br>Fund<br>(past<br>fiscal<br>year)+ | Total<br>Compensation<br>From<br>Fund and<br>Federated<br>Fund<br>Complex<br>(past<br>calendar<br>year) |
|---|---|--|---|
| Thomas G. Bigley<br>Birth Date:<br>February 3, 1934<br>15 Old Timber Trail<br>Pittsburgh, PA<br>TRUSTEE(1)(2) | Principal Occupation: Director or Trustee of the Federated Fund Complex. Other Directorships Held: Director, Member of Executive Committee, Children's Hospital of Pittsburgh; Director, Member of Executive Committee, University of Pittsburgh. Previous Position: Senior Partner, Ernst & Young LLP. | \$0  | \$128,847.72  |
| John T. Conroy, Jr.<br>Birth Date:<br>June 23, 1937<br>Grubb & Ellis/Investment Properties                    | Principal Occupations: Director or Trustee of the Federated Fund Complex; Chairman of the Board, Investment Properties Corporation; Partner or Trustee in private real estate ventures in Southwest Florida. Previous Positions: President, Investment Properties                                       | \$0  | \$128,847.66  |

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|   |   |     |              |
|---|---|-----|--------------|
| Corporation<br>3838 Tamiami<br>Trail North<br>Naples, FL<br>TRUSTEE(1)(2)   | Corporation; Senior Vice President, John R. Wood and Associates, Inc., Realtors; President, Naples Property Management, Inc. and Northgate Village Development Corporation.   |     |              |
| Nicholas P. Constantakis<br>Birth Date:<br>September3,<br>1939 175<br>Woodshire Drive<br>Pittsburgh, PA<br>TRUSTEE (1)(2)         | Principal Occupation: Director or Trustee of the Federated Fund Complex; Previous Position: Partner, Andersen Worldwide SC (prior to 9/1/97). Other Directorships Held: Director, Michael Baker Corporation (engineering and energy services worldwide).  | \$0 | \$126,923.53 |
| John F. Cunningham<br>Birth Date:<br>March5, 1943<br>353 El Brillo<br>Way Palm Beach,<br>FL TRUSTEE(1)(2)                         | Principal Occupation: Director or Trustee of the Federated Fund Complex. Other Directorships Held: Chairman, President and Chief Executive Officer, Cunningham & Co., Inc. (strategic business consulting); Trustee Associate, Boston College. Previous Positions: Director, Redgate Communications and EMC Corporation (computer storage systems); Chairman of the Board and Chief Executive Officer, Computer Consoles, Inc.; President and Chief Operating Officer, Wang Laboratories; Director, First National Bank of Boston; Director, Apollo Computer, Inc.  | \$0 | \$115,368.16 |
| Peter E. Madden<br>Birth Date:<br>March16, 1942<br>One Royal Palm<br>Way 100 Royal<br>Palm Way Palm<br>Beach, FL<br>TRUSTEE(1)(2) | Principal Occupation: Director or Trustee of the Federated Fund Complex; Management Consultant. Previous Positions: Representative, Commonwealth of Massachusetts General Court; President, State Street Bank and Trust Company and State Street Corporation (retired); Director, VISA USA and VISA International; Chairman and Director, Massachusetts Bankers Association; Director, Depository Trust Corporation; Director, The Boston Stock Exchange.   | \$0 | \$117,117.14 |
| Charles F. Mansfield, Jr.<br>Birth Date:<br>April10, 1945<br>80 South Road<br>Westhampton<br>Beach, NY<br>TRUSTEE(1)(2)           | Principal Occupations: Director or Trustee of the Federated Fund Complex; Management Consultant; Executive Vice President, DVC Group, Inc. (marketing, communications and technology) (prior to 9/1/00). Previous Positions: Chief Executive Officer, PBTC International Bank; Partner, Arthur Young & Company (now Ernst & Young LLP); Chief Financial Officer of Retail Banking Sector, Chase Manhattan Bank; Senior Vice President, HSBC Bank USA (formerly, Marine Midland Bank); Vice President, Citibank; Assistant Professor of Banking and Finance, Frank G. Zarb School of Business, Hofstra University. | \$0 | \$128,847.66 |
| John E. Murray,<br>Jr., J.D.,<br>S.J.D. Birth<br>Date:<br>December20,<br>1932   | Principal Occupations: Director or Trustee of the Federated Fund Complex; Chancellor and Law Professor, Duquesne University; Consulting Partner, Mollica & Murray. Other Directorships Held: Director, Michael Baker Corp. (engineering, construction, operations and   | \$0 | \$117,117.14 |

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Chancellor, technical services). Previous Positions:  
 Duquesne President, Duquesne University; Dean and  
 University Professor of Law, University of Pittsburgh  
 Pittsburgh, PA School of Law; Dean and Professor of Law,  
 TRUSTEE(1)(2) Villanova University School of Law.

Marjorie P. Principal Occupations: Director or Trustee of \$0 \$117,117.17  
 Smuts Birth the Federated Fund Complex; Public Relations/  
 Date: June21, Marketing Consultant/Conference Coordinator.  
 1935 4905 Previous Positions: National Spokesperson,  
 Bayard Street Aluminum Company of America; television  
 Pittsburgh, PA producer; President, Marj Palmer Assoc.;  
 TRUSTEE(1)(2) Owner, Scandia Bord.

+ Board members will not receive compensation from the Fund during the Fund's first fiscal year. Thereafter, the Fund will be subject to a base charge of \$250 per quarter; the remainder of the "Total Compensation" in column two will be allocated to each fund in the Federated Fund Complex based on the net assets of each such fund.

| Name Birth Date Address Positions Held with Fund | Principal Occupation(s) for Past Five Years, Other Directorships Held and Previous Positions | Aggregate Compensation From Fund (past fiscal year)+ | Total Compensation From Fund and Federated Fund Complex (past calendar year) |
|--|--|--|--|
|--|--|--|--|

|  |   |     |              |
|--|---|-----|--------------|
| John S. Walsh<br>Birth Date:<br>November28,<br>1957 2604<br>William Drive<br>Valparaiso, IN<br>TRUSTEE(1)(2) | Principal Occupations: Director or Trustee of the Federated Fund Complex; 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. Other Directorships Held: Director, Walsh & Kelly, Inc. (heavy highway contractor). Previous Position: Vice President, Walsh & Kelly, Inc. | \$0 | \$117,117.17 |
|--|---|-----|--------------|

OFFICERS\*\*

| Name Birth Date Address Positions Held with Fund | Principal Occupation(s) and Previous Positions   |
|--|--|
| John W. McGonigle<br>Birth Date:<br>October26,   | Principal Occupations: Executive Vice President and Secretary of the Federated Fund Complex; Executive Vice President, Secretary and Director, Federated Investors, Inc. Previous Positions: Trustee, Federated Investment Management Company and Federated Investment |

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1938 EXECUTIVE      Counseling; Director, Federated Global Investment Management Corp.,  
VICE PRESIDENT      Federated Services Company and Federated Securities Corp.  
AND SECRETARY

Richard J.            Principal Occupations: Treasurer of the Federated Fund Complex;  
Thomas Birth        Senior Vice President, Federated Administrative Services. Previous  
Date: June17,       Positions: Vice President, Federated Administrative Services; held  
1954 TREASURER     various management positions within Funds Financial Services  
Division of Federated Investors, Inc.

Richard B.            Principal Occupations: President or Vice President of some of the  
Fisher Birth        Funds in the Federated Fund Complex; Vice Chairman, Federated  
Date: May17,        Investors, Inc.; Chairman, Federated Securities Corp. Previous  
1923 VICE            Positions: Director or Trustee of some of the Funds in the Federated  
PRESIDENT          Fund Complex; Executive Vice President, Federated Investors, Inc.  
and Director and Chief Executive Officer, Federated Securities Corp.

William D.            Principal Occupations: Chief Investment Officer of this Fund and  
Dawson III          various other Funds in the Federated Fund Complex; Executive Vice  
Birth Date:         President, Federated Investment Counseling, Federated Global  
March3, 1949        Investment Management Corp., Federated Investment Management Company  
CHIEF                and Passport Research, Ltd.; Director, Federated Global Investment  
INVESTMENT         Management Corp. and Federated Investment Management Company;  
OFFICER             Portfolio Manager, Federated Administrative Services; Vice  
President, Federated Investors, Inc. Previous Positions: Executive  
Vice President and Senior Vice President, Federated Investment  
Counseling Institutional Portfolio Management Services Division;  
Senior Vice President, Federated Investment Management Company and  
Passport Research, Ltd.

Mary Jo Ochson      Mary Jo Ochson is the Portfolio Manager of the Fund. She is Vice  
Birth Date:         President of the Fund. Ms. Ochson joined Federated in 1982 and has  
September 12,      been a Senior Portfolio Manager and a Senior Vice President of the  
1953 SENIOR         Fund's Adviser since 1996. From 1988 through 1995, Ms. Ochson served  
VICE PRESIDENT    as a Portfolio Manager and a Vice President of the Fund's Adviser.  
Ms. Ochson is a Chartered Financial Analyst and received her M.B.A.  
in Finance from the University of Pittsburgh.

+ Board members will not receive compensation from the Fund during the Fund's first fiscal year. Thereafter, the Fund will be subject to a base charge of \$250 per quarter; the remainder of the "Total Compensation" in column two will be allocated to each fund in the Federated Fund Complex based on the net assets of each such fund.

- (1) After a Trustee's initial term, each Trustee is expected to serve a three year term concurrent with the class of trustees for which he or she serves:
- Messrs. John F. Donahue, Thomas G. Bigley, John T. Conroy, Jr., and John S. Walsh, as Class I trustees, are expected to stand for re-election at the Fund's 2004 meeting of shareholders.
  - Messrs. J. Christopher Donahue, Nicholas P. Constantakis, John F. Cunningham, and Majorie P. Smuts, as Class II trustees, are expected to stand for re-election at the Fund's 2005 meeting of shareholders.
  - Messrs. Lawrence D. Ellis, M.D., Peter E. Madden, Charles F. Mansfield, Jr. and John E. Murray, Jr., J.D, S.J.D., as Class III trustees, are expected to stand for re-election at the Fund's 2006 meeting of shareholders.

\*\* Officers do not receive any compensation from the Fund.



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Thomas R. Donahue, Chief Financial Officer, Vice President, Treasurer and Assistant Secretary of Federated Investors, Inc. and an officer of its various advisory and underwriting subsidiaries, has served as a Term Member on the Board of Directors of Duquesne University, Pittsburgh, Pennsylvania, since May 12, 2000. Mr. John E. Murray, Jr., an Independent Trustee of the Fund, served as President of Duquesne from 1988 until his retirement from that position in 2001, and became Chancellor of Duquesne on August 15, 2001. It should be noted that Mr. Donahue abstains on any matter that comes before Duquesne's Board that affects Mr. Murray personally.

### Committees of the Board

| Board     | Committee  | Committee Functions  | Meetings Held During Last Fiscal Year |
|-----------|--|--|---------------------------------------|
| Executive | John F. Donahue<br>John E. Murray, Jr., J.D.,<br>S.J.D.  | In between meetings of the full Board, the Executive Committee generally may exercise all the powers of the full Board in the management and direction of the business and conduct of the affairs of the Fund in such manner as the Executive Committee shall deem to be in the best interests of the Fund. However, the Executive Committee cannot elect or remove Board members, increase or decrease the number of Trustees, elect or remove any Officer, declare dividends, issue shares or recommend to shareholders any action requiring shareholder approval.   | NA                                    |
| Audit     | Thomas G. Bigley<br>John T. Conroy, Jr.<br>Nicholas P. Constantakis<br>Charles F. Mansfield, Jr. | The Audit Committee reviews and recommends to the full Board the independent auditors to be selected to audit the Fund's financial statements; meets with the independent auditors periodically to review the results of the audits and report the results to the full Board; evaluates the independence of the auditors, reviews legal and regulatory matters that may have a material effect on the financial statements, related compliance policies and programs, and the related reports received from regulators; reviews the Fund's internal audit function; review compliance with the Fund's code of conduct/ethics; review valuation issues; monitors inter-fund lending transactions; reviews custody services and issues and investigate any matters brought to the Committee's attention that are within the scope of its duties. | NA                                    |

Board Ownership of Shares in the Fund and in the Federated Family of

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### Investment Companies

| Interested Board<br>Member Name      | Dollar<br>Range<br>of<br>Shares<br>Owned<br>in Fund | Aggregate<br>Dollar<br>Range of<br>Shares<br>Owned in<br>Federated<br>Family of<br>Investment<br>Companies |
|--------------------------------------|---|--|
| John F. Donahue                      | \$0   | Over<br>\$100,000  |
| J. Christopher<br>Donahue            | \$0   | Over<br>\$100,000  |
| Lawrence D. Ellis,<br>M.D.           | \$0   | Over<br>\$100,000  |
| Independent Board                    |   |  |
| Member Name                          |   |  |
| Thomas G. Bigley                     | \$0   | Over<br>\$100,000  |
| John T. Conroy, Jr.                  | \$0   | Over<br>\$100,000  |
| Nicholas P.<br>Constantakis          | \$0   | Over<br>\$100,000  |
| John F. Cunningham                   | \$0   | Over<br>\$100,000  |
| Peter E. Madden                      | \$0   | Over<br>\$100,000  |
| Charles F.<br>Mansfield, Jr.         | \$0   | \$50,001 -<br>\$100,000  |
| John E. Murray,<br>Jr., J.D., S.J.D. | \$0   | Over<br>\$100,000  |
| Marjorie P. Smuts                    | \$0   | Over<br>\$100,000  |
| John S. Walsh                        | \$0   | Over<br>\$100,000  |

### Code of Ethics

As required by SEC rules, the Fund, its Adviser, and the Fund's principal underwriters have adopted codes of ethics. These codes permit personnel subject to the codes to invest in securities, including securities that may be purchased or held by the Fund. These codes can be reviewed and copied at the Securities and Exchange Commission's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the Securities and Exchange Commission at 1-202-942-8090. The codes of ethics are available on the EDGAR Database on the Security and Exchange Commission's web site (<http://www.sec.gov>), and copies of these codes may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the Security and Exchange Commission's Public Reference Section, Washington, D.C. 20549-0102.

### Investment Adviser

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The Adviser conducts investment research and makes investment decisions for the Fund.

The Adviser is a wholly owned subsidiary of Federated.

Pursuant to an investment management agreement between the Adviser and the Fund, the Fund has agreed to pay for the investment advisory services and facilities provided by the Adviser a fee payable monthly in arrears at an annual rate equal to 0.55% of the average daily value of the Fund's Managed Assets (the "Management Fee"). The Adviser has contractually agreed to waive receipt of a portion of its Management Fee in the amount of 0.20% of the average daily value of the Fund's Managed Assets for the first five years of the Fund's operations (through December 31, 2007), and for a declining amount for an additional three years (through December 31, 2010). Managed Assets means the total assets of the Fund including any assets attributable to any Preferred Shares or borrowings that may be outstanding, minus the sum of accrued liabilities (other than indebtedness attributable to financial leverage). The liquidation preference on the Preferred Shares is not a liability. This means that during periods in which the Fund is using leverage, the fee paid to the Adviser will be higher than if the Fund did not use leverage because the fee is calculated as a percentage of the Fund's Managed Assets, which include those assets purchased with leverage.

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

As required by the 1940 Act, the Board has reviewed the Fund's investment advisory contract. During its review of the contract, the Board considered many factors, among the most material of which are: the Fund's investment objectives; the Adviser's management philosophy, personnel and processes; the preferences and expectations of Fund shareholders and their relative sophistication; the continuing state of competition in the mutual fund industry; comparable fees in the mutual fund industry; the range and quality of services provided to the Fund and its shareholders by the Federated organization in addition to investment advisory services; and the Fund's relationship to other funds in the Federated Fund family ("Federated Funds").

The Board also considered the compensation and benefits received by the Adviser. This includes fees to be received for services provided to the Fund by other entities in the Federated organization and research services to be received by the Adviser from brokers that execute Fund trades, as well as advisory fees. In this regard, the Board is aware that various courts have interpreted provisions of the 1940 Act and have indicated in their decisions that the following factors may be relevant to an adviser's compensation: the nature and quality of the services provided by the adviser, including the performance of the fund; the adviser's cost of providing the services; the extent to which the adviser may realize "economies of scale" as the fund grows larger; any indirect benefits that may accrue to the adviser and its affiliates as a result of the adviser's relationship with the fund; performance and expenses of comparable funds; and the extent to which the independent Board members are fully informed about all facts bearing on the adviser's services and fee. The Fund's Board is aware of these factors and has taken them into account in its review of the Fund's advisory contract.

The Board considered and weighed these circumstances in light of its

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accumulated experience in working with Federated on matters relating to the Federated Funds, and was assisted in its deliberations by the advice of independent legal counsel. In this regard, the Board requested and received a significant amount of information about the Fund, the Federated Funds and the Federated organization. Thus, the Board's evaluation of the Fund's advisory contract included an analysis of reports covering such matters as: the Adviser's investment philosophy, personnel, and processes; the short- and long-term performance of other Federated Funds (in absolute terms as well as in relationship to their particular investment programs and certain competitor or "peer group" funds) and comments on the reasons for performance; the Fund's proposed expenses (including the advisory fee itself and the overall expense structure of the Fund, both in absolute terms and relative to similar and/or competing funds, with due regard for contractual or voluntary expense limitations); the possible use and allocation of brokerage commissions derived from trading the Fund's portfolio securities; the nature and extent of the advisory and other services to be provided to the Fund by the Adviser and its affiliates; compliance and audit reports concerning the Federated Funds and the Federated companies that service them; and relevant developments in the mutual fund industry and how the Federated Funds and/or Federated are responding to them.

The Board also received financial information about Federated, including reports on the compensation and benefits Federated derives from its relationships with the Federated Funds. These reports cover not only the fees under the advisory contracts, but also fees received by Federated's subsidiaries for providing other services to the Federated Funds under separate contracts (e.g., for serving as administrator and transfer agent to the Federated Funds). The reports also discuss any indirect benefit Federated may derive from its receipt of research services from brokers who execute fund trades.

The Board based its decision to approve the Fund's advisory contract on the totality of the circumstances and relevant factors, and with a view to past and future long-term considerations. The Board did not consider any one of the factors and considerations identified above to be determinative. Because the totality of circumstances included considering the relationship of each Fund to the Federated Funds, the Board did not approach consideration of the Fund's advisory contract as if that were the only Federated Fund.

### Custodian

State Street Bank and Trust Company, Boston, Massachusetts, is custodian for the securities and cash of the Fund. Foreign instruments purchased by the Fund are held by foreign banks participating in a network coordinated by State Street Bank.

### Transfer Agent and Dividend Disbursing Agent

EquiServe Trust Company, N.A. maintains all necessary shareholder records. The Fund pays the transfer agent a fee based on the size, type and number of accounts and transactions made by shareholders.

### Independent Auditors

The independent auditor for the Fund, Ernst & Young LLP, conducts its audits in accordance with auditing standards generally accepted in the United States of America, which require it to plan and perform its audits to provide reasonable assurance about whether the Fund's financial statements and financial highlights are free of material misstatement.

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### BROKERAGE TRANSACTIONS

When selecting brokers and dealers to handle the purchase and sale of portfolio instruments, the Adviser looks for prompt execution of the order at a favorable price. The Adviser will generally use those who are recognized dealers in specific portfolio instruments, except when a better price and execution of the order can be obtained elsewhere. In selecting among firms believed to meet these criteria, the Adviser may give consideration to those firms which have sold or are selling Shares of the Fund and other funds under common control with the Fund. The Adviser makes decisions on portfolio transactions and selects brokers and dealers subject to review by the Fund's Board.

Investment decisions for the Fund are made independently from those of other accounts managed by the Adviser. When the Fund and one or more of those accounts invests in, or disposes of, the same security, available investments or opportunities for sales will be allocated among the Fund and the accounts(s) in a manner believed by the Adviser to be equitable. While the coordination and ability to participate in volume transactions may benefit the Fund, it is possible that this procedure could adversely impact the price paid or received and/or the position obtained or disposed of by the Fund.

### DESCRIPTION OF SHARES

#### Common Shares

The Fund intends to hold annual meetings of shareholders so long as the Common Shares are listed on a national securities exchange and such meetings are required as a condition to such listing.

#### Preferred Shares

Although the terms of any Preferred Share issued by the Fund, including their dividend rate, voting rights, liquidation preference and redemption provisions, will be determined by the Board (subject to applicable law and the Fund's Agreement and Declaration of Trust) when it authorizes a Preferred Shares offering, the Fund currently expects that the preference on distributions, liquidation preference, voting rights and redemption provisions of any such Preferred Shares will likely be as stated in the prospectus.

If the Board determines to proceed with an offering of Preferred Shares, the terms of Preferred Shares may be the same as, or different from, the terms described in the prospectus, subject to applicable law and the Fund's Agreement and Declaration of Trust. The Board, without the approval of Common Shareholders, may authorize an offering of Preferred Shares or may determine not to authorize such an offering, and may fix the terms of the Preferred Shares to be offered.

#### Other Shares

The Board (subject to applicable law and the Fund's Agreement and Declaration of Trust) may authorize an offering, without the approval of the Common Shareholders or Preferred Shareholders, of other classes of shares, or other classes or series of shares, as they determine to be necessary, desirable or appropriate, having such terms, rights,

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preferences, privileges, limitations and restrictions as the Board sees fit. The Fund currently does not expect to issue any other classes of shares, or series of shares, except for the Common Shares and the Preferred Shares.

### REPURCHASE OF COMMON SHARES

The Fund is a closed-end management investment company and as such its Common Shareholders will not have the right to cause the Fund to redeem their shares. Instead, the Fund's Common Shares will trade in the open market at a price that will be a function of several factors, including dividend levels (which are in turn affected by expenses), NAV, call protection, dividend stability, relative demand for and supply of such shares in the market, general market and economic conditions and other factors. Because shares of a closed-end investment company may frequently trade at prices lower than NAV, the Fund's Board may consider action that might be taken to reduce or eliminate any material discount from NAV in respect of Common Shares, which may include the repurchase of such Common Shares in the open market or in private transactions, the making of a tender offer for such Common Shares or the conversion of the Fund to an open-end investment company. The Board may decide not to take any of these actions. In addition, there can be no assurance that share repurchases or tender offers, if undertaken, will reduce market discount.

Notwithstanding the foregoing, at any time when the Fund's Preferred Shares are outstanding, the Fund may not purchase, redeem or otherwise acquire any of its Common Shares unless (1) all accrued Preferred Shares dividends have been paid and (2) at the time of such purchase, redemption or acquisition, the NAV of the Fund's portfolio (determined after deducting the acquisition price of the Common Shares) is at least 200% of the liquidation value of the outstanding Preferred Shares (expected to equal the original purchase price per share plus any accrued and unpaid dividends thereon). Any service fees incurred in connection with any tender offer made by the Fund will be borne by the Fund and will not reduce the stated consideration to be paid to tendering shareholders.

Subject to its investment restrictions, the Fund may borrow to finance the repurchase of shares or to make a tender offer. Interest on any borrowings to finance share repurchase transactions or the accumulation of cash by the Fund in anticipation of share repurchases or tenders will reduce the Fund's net income. Any share repurchase, tender offer or borrowing that might be approved by the Fund's Board would have to comply with the Securities Exchange Act of 1934, as amended, the 1940 Act and the rules and regulations thereunder.

Although the decision to take action in response to a discount from NAV will be made by the Board at the time it considers such issue, it is the Board's present policy, which may be changed by the Board, not to authorize repurchases of Common Shares or a tender offer for such Common Shares if: (1) such transactions, if consummated, would (a) result in the delisting of the Common Shares from the New York Stock Exchange, or (b) impair the Fund's status as a regulated investment company under the Code, (which would make the Fund a taxable entity, causing the Fund's income to be taxed at the corporate level in addition to the taxation of shareholders who receive dividends from the Fund) or as a registered closed-end investment company under the Investment Company Act; (2) the Fund would not be able to liquidate portfolio securities in an orderly manner and consistent with the Fund's investment objective and policies in order to repurchase shares; or (3) there is, in the Board's judgment, any (a) material legal action or proceeding instituted or threatened challenging such transactions or otherwise materially adversely affecting the Fund, (b) general suspension of or limitation on prices for trading

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securities on the New York Stock Exchange, (c) declaration of a banking moratorium by Federal or state authorities or any suspension of payment by United States or New York banks, (d) material limitation affecting the Fund or the issuers of its portfolio securities by Federal or state authorities on the extension of credit by lending institutions or on the exchange of foreign currency, (e) commencement of war, armed hostilities or other international or national calamity directly or indirectly involving the United States, or (f) other event or condition which would have a material adverse effect (including any adverse tax effect) on the Fund or its shareholders if shares were repurchased. The Board may in the future modify these conditions in light of experience.

The repurchase by the Fund of its shares at prices below NAV will result in an increase in the NAV of those shares that remain outstanding. However, there can be no assurance that share repurchases or tender offers at or below NAV will result in the Fund's shares trading at a price equal to their net asset value. Nevertheless, the fact that the Fund's shares may be the subject of repurchase or tender offers from time to time, or that the Fund may be converted to an open-end investment company, may reduce any spread between market price and NAV that might otherwise exist.

In addition, a purchase by the Fund of its Common Shares will decrease the Fund's Managed Assets which would likely have the effect of increasing the Fund's expense ratio. Any purchase by the Fund of its Common Shares at a time when Preferred Shares are outstanding will increase the leverage applicable to the outstanding Common Shares then remaining.

Before deciding whether to take any action if the Common Shares trade below NAV, the Fund's Board would likely consider all relevant factors, including the extent and duration of the discount, the liquidity of the Fund's portfolio, the impact of any action that might be taken on the Fund or its shareholders and market considerations. Based on these considerations, even if the Fund's shares should trade at a discount, the Board may determine that, in the interest of the Fund and its shareholders, no action should be taken.

### TAX MATTERS

The following is a description of certain federal income tax consequences to a shareholder of acquiring, holding and disposing of Common Shares. The discussion reflects applicable tax laws of the United States as of the date of this prospectus, which tax laws may be changed or subject to new interpretations by the courts or the Internal Revenue Service retroactively or prospectively.

The Fund intends to elect to be treated and to qualify to be taxed as a regulated investment company under Subchapter M of the Code. In order to qualify as a regulated investment company, the Fund must satisfy certain requirements relating to the source of its income, diversification of its assets and distributions of its income to its shareholders. First, the Fund must derive at least 90% of its annual gross income (including tax exempt interest) from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock or securities or foreign currencies, or other income (including but not limited to gains from options, futures and forward contracts) derived with respect to its business of investing in such stock, securities or currencies (the "90% gross income test"). Second, the Fund must diversify its holdings so that, at the close of each quarter of its taxable year, (1) at least 50% of the value of its total assets is comprised of cash, cash items, United States government securities, securities of other regulated investment companies and other securities, limited in respect of

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any one issuer to an amount not greater in value than 5% of the value of the Fund's total assets and to not more than 10% of the outstanding voting securities of such issuer, and (2) not more than 25% of the value of the total assets is invested in the securities of any one issuer (other than United States government securities and securities of other regulated investment companies) or two or more issuers controlled by the Fund and engaged in the same, similar or related trades or businesses.

As a regulated investment company, the Fund will not be subject to federal income tax on income and gains that it distributes each taxable year to its shareholders, provided that in such taxable year it distributes at least 90% of the sum of (1) its "investment company taxable income" (which includes, among other items, dividends, taxable interest, taxable original issue discount and market discount income, income from securities lending, net short-term capital gain in excess of net long-term capital loss and any other taxable income other than "net capital gain" (as defined below) and is reduced by deductible expenses) determined without regard to the deduction for dividends paid and (2) its net tax exempt interest (the excess of its gross tax exempt interest income over certain disallowed deductions). The Fund may retain for investment its net capital gain (which consists of the excess of its net long-term capital gain over its net short-term capital loss). However, if the Fund retains any net capital gain or any investment company taxable income, it will be subject to tax at regular corporate rates on the amount retained. If the Fund retains any net capital gain, it may designate the retained amount as undistributed capital gains in a notice to its shareholders who, if subject to federal income tax on long-term capital gains, (1) will be required to include in income for federal income tax purposes, as long-term capital gain, their share of such undistributed amount and (2) will be entitled to credit their proportionate shares of the tax paid by the Fund against their federal income tax liabilities, if any, and to claim refunds to the extent the credit exceeds such liabilities. For federal income tax purposes, the tax basis of shares owned by a shareholder of the Fund will be increased by the amount of undistributed capital gains included in the gross income of the shareholder less the tax deemed paid by the shareholder under clause (ii) of the preceding sentence. The Fund intends to distribute at least annually to its shareholders all or substantially all of its net tax exempt interest and any investment company taxable income and net capital gain.

Treasury regulations permit a regulated investment company, in determining its investment company taxable income and net capital gain, to elect (unless it has made a special taxable year election for excise tax purposes) to treat all or part of any net capital loss, any net long-term capital loss or any net foreign currency loss incurred after October 31 as if it had been incurred in the succeeding year.

Distributions by the Fund of investment company taxable income, if any, whether received in cash or additional shares, will be taxable to shareholders as ordinary income (to the extent of the current or accumulated earning and profits of the Fund) and generally will not qualify for the dividends received deduction in the case of corporate shareholders. Net long-term capital gains realized by the Fund and distributed to shareholders in cash or additional shares will be taxable to shareholders as long-term capital gains regardless of the length of time investors have owned shares of the Fund. Distributions by the Fund that do not constitute ordinary income dividends, capital gain distributions or exempt-interest dividends (as defined below) will be treated as a return of capital to the extent of (and in reduction of) the shareholder's tax basis in his or her shares. Any excess will be treated as gain from the sale of his or her shares, as discussed below.



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The Fund intends to invest in sufficient tax exempt securities to permit payment of "exempt-interest dividends" (as defined in the Code). Except as provided below, exempt-interest dividends paid to Common Shareholders are not includable in the holder's gross income for federal income tax purposes.

If the Fund engages in hedging transactions involving financial futures and options, these transactions will be subject to special tax rules, the effect of which may be to accelerate income to the Fund, defer the Fund's losses, cause adjustments in the holding periods of the Fund's securities, convert long-term capital gains into short-term capital gains and convert short-term capital losses into long-term capital losses. These rules could therefore affect the amount, timing and character of distributions to Common Shareholders.

Prior to purchasing shares in the Fund, an investor should carefully consider the impact of dividends which are expected to be or have been declared, but not paid. Any dividend declared shortly after a purchase of such shares prior to the record date will have the effect of reducing the per share net asset value by the per share amount of the dividend.

Although dividends generally will be treated as distributed when paid, dividends declared in October, November or December, payable to holders of common shares of record on a specified date in one of those months and paid during the following January, will be treated as having been distributed by the Fund (and received by the holder of common shares) on December 31.

The Internal Revenue Service's position in a published revenue ruling indicates that the Fund is required to designate distributions paid with respect to its Common Shares and its Preferred Shares as consisting of a portion of each type of income distributed by the Fund. The portion of each type of income deemed received by the holders of each class of shares will be equal to the portion of total Fund dividends received by such class. Thus, the Fund will designate dividends paid as exempt-interest dividends in a manner that allocates such dividends between Common Shareholders and Preferred Shareholders in proportion to the total dividends paid to each such class during or with respect to the taxable year, or otherwise as required by applicable law. Capital gain dividends and ordinary income dividends will similarly be allocated between the two classes.

Exempt-interest dividends are included in determining what portion, if any, of a person's Social Security and railroad retirement benefits will be includable in gross income subject to federal income tax.

Although exempt-interest dividends generally may be treated by Common Shareholders as items of interest excluded from their gross income, each Common Shareholder is advised to consult his tax advisor with respect to whether exempt-interest dividends retain their exclusion if the shareholder would be treated as a "substantial user," or a "related person" of a substantial user, of the facilities financed with respect to any of the tax exempt obligations held by the Fund.

Federal income tax law imposes an alternative minimum tax with respect to both corporations and individuals based on certain items of tax preference. Interest on certain "private activity bonds" is an item of tax preference subject to the alternative minimum tax on individuals and corporations. In addition, for corporations alternative minimum taxable income is increased by 75% of the difference between an alternative measure of income ("adjusted current earnings") and the amount otherwise determined to be the alternative minimum taxable income. Interest on

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municipal bonds, and therefore all exempt-interest dividends received from the Fund, are included in calculating adjusted current earnings. Accordingly, investment in the Fund could cause Common Shareholders to be subject to or result in an increased liability under the AMT. The Fund will annually supply Common Shareholders a report indicating the amount and nature of amounts distributed to them.

The redemption, sale or exchange of Common Shares normally will result in capital gain or loss to Common Shareholders who hold their Common Shares as capital assets. Generally, a Common Shareholder's gain or loss will be long-term capital gain or loss if the shares have been held for more than one year even though the increase in value in such common shares is attributable to tax exempt interest income. In addition, gain realized by the Fund from the disposition of a tax exempt security that is attributable to accrued market discount will be treated as ordinary income rather than capital gain, and thus may increase the amount of ordinary income dividends received by Common Shareholders. Present law taxes both long- and short-term capital gains of corporations at the rates applicable to ordinary income. For non-corporate taxpayers, however, long-term capital gains will be taxed at a maximum rate of 20% (or 18% for capital assets that have been held for more than five years and whose holding periods began after December 31, 2000), while short-term capital gains and other ordinary income will currently be taxed at a maximum rate of 38.6%. Because of the limitations on itemized deductions and the deduction for personal exemptions applicable to higher income taxpayers, the effective tax rate may be higher in certain circumstances.

All or a portion of a sales charge paid in purchasing Common Shares cannot be taken into account for purposes of determining gain or loss on the redemption, sale or exchange of such Shares within 90 days after their purchase to the extent Common Shares or shares of another fund are subsequently acquired without payment of a sales charge pursuant to the reinvestment or exchange privilege. Any disregarded portion of such charge will result in an increase in the shareholder's tax basis in the shares subsequently acquired. In addition, no loss will be allowed on the redemption, sale or exchange of Common Shares if the Common Shareholder purchases other Common Shares of the Fund (whether through reinvestment of distributions or otherwise) or the shareholder acquires or enters into a contract or option to acquire shares that are substantially identical to Common Shares of the Fund within a period of 61 days beginning 30 days before and ending 30 days after such redemption, sale or exchange. If disallowed, the loss will be reflected in an adjustment to the basis of the shares acquired. Further, any losses realized on the redemption, sale or exchange of Common Shares held for six months or less will be disallowed to the extent of any exempt-interest dividends received with respect to such Common Shares and, if not disallowed, such losses will be treated as long-term capital losses to the extent of any capital gain dividends received (or amounts credited as undistributed capital gains) with respect to such Common Shares.

In order to avoid a 4% federal excise tax, the Fund must distribute or be deemed to have distributed by December 31 of each calendar year the sum of at least 98% of its taxable ordinary income for such year, at least 98% of its capital gain net income (the excess of its realized capital gains over its realized capital losses, generally computed on the basis of the one-year period ending on October 31 of such year) and 100% of any taxable ordinary income and capital gain net income for the prior year that was not distributed during such year and on which the Fund paid no federal income tax. For purposes of the excise tax, a regulated investment company may reduce its capital gain net income (but not below its net capital gain) by the amount of any net ordinary loss for the calendar year. The Fund intends to make timely distributions in compliance with

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these requirements and consequently it is anticipated that it generally will not be required to pay the excise tax.

If in any tax year the Fund should fail to qualify under Subchapter M for tax treatment as a regulated investment company, the Fund would incur a regular corporate federal income tax upon its taxable income for that year, and distributions to its shareholders would be taxable to shareholders as ordinary dividend income for federal income tax purposes to the extent of the Fund's earnings and profits.

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 1 The Economic Growth and Tax Relief Reconciliation Act of 2001, effective for taxable years beginning after December 31, 2000, creates a new 10 percent income tax bracket and reduces the tax rates applicable to ordinary income over a six year phase-in period. Beginning in the taxable year 2006, ordinary income will be subject to a 35% maximum rate, with approximately proportionate reductions in the other ordinary rates.  
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The Fund is required to withhold tax at a rate equal to the fourth lowest rate applicable to unmarried individuals (currently, 30%) on taxable dividends and certain other payments paid to non-corporate shareholders who have not furnished to the Fund their correct taxpayer identification number (in the case of individuals, their Social Security number) and certain certifications, or who are otherwise subject to backup withholding. Backup withholding is not an additional tax and any amount withheld may be refunded or credited against the shareholder's federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

The foregoing is a general and abbreviated summary of the provisions of the Code and the Treasury Regulations presently in effect as they directly govern the taxation of the Fund and its shareholders. For complete provisions, reference should be made to the pertinent Code sections and Treasury Regulations. The Code and the Treasury Regulations are subject to change by legislative or administrative action, and any such change may be retroactive with respect to Fund transactions. Common Shareholders are advised to consult their own tax advisers for more detailed information concerning the federal income taxation of the Fund and the income tax consequences to its holders of Common Shares.

PERFORMANCE AND RELATED COMPARATIVE INFORMATION

Tax Equivalency Table

Set forth below is a sample of a tax-equivalency table that may be used in advertising and sales literature. This table is for illustrative purposes only and is not representative of past or future performance of the Fund. The interest earned by the municipal securities owned by the Fund generally remains free from federal income tax. However, some of the Fund's income may be subject to state or local taxes.

|        |        | Taxable Yield Equivalent for 2002 |                  |                   |                   |        |         |
|--------|--------|-----------------------------------|------------------|-------------------|-------------------|--------|---------|
|        |        | Multistate Municipal Fund         |                  |                   |                   |        |         |
|        |        | Federal Income Tax Bracket        |                  |                   |                   |        |         |
|        |        | 10.00%                            | 15.00%           | 27.00%            | 30.00%            | 35.00% | 38.60%  |
| Joint  | \$0-   | \$12,001                          | \$46,701-112,851 | \$112,851-171,751 | \$171,751-307,050 | Over   |         |
| Return | 12,000 | - 46,700                          |                  |                   |                   |        | 307,050 |
| Single | \$0-   | \$6,001-27,951                    | \$27,951-67,701  | \$67,701-141,251  | \$141,251-300,000 | Over   | 0       |

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Return 6,000

307,050

| Tax Exempt Yield | Taxable Yield Equivalent |        |        |        |        |        |
|------------------|--------------------------|--------|--------|--------|--------|--------|
| 0.50%            | 0.56%                    | 0.59%  | 0.68%  | 0.71%  | 0.77%  | 0.81%  |
| 1.00%            | 1.11%                    | 1.18%  | 1.37%  | 1.43%  | 1.54%  | 1.63%  |
| 1.50%            | 1.67%                    | 1.76%  | 2.05%  | 2.14%  | 2.31%  | 2.44%  |
| 2.00%            | 2.22%                    | 2.35%  | 2.74%  | 2.86%  | 3.08%  | 3.26%  |
| 2.50%            | 2.78%                    | 2.94%  | 3.42%  | 3.57%  | 3.85%  | 4.07%  |
| 3.00%            | 3.33%                    | 3.53%  | 4.11%  | 4.29%  | 4.62%  | 4.89%  |
| 3.50%            | 3.89%                    | 4.12%  | 4.79%  | 5.00%  | 5.38%  | 5.70%  |
| 4.00%            | 4.44%                    | 4.71%  | 5.48%  | 5.71%  | 6.15%  | 6.51%  |
| 4.50%            | 5.00%                    | 5.29%  | 6.16%  | 6.43%  | 6.92%  | 7.33%  |
| 5.00%            | 5.56%                    | 5.88%  | 6.85%  | 7.14%  | 7.69%  | 8.14%  |
| 5.50%            | 6.11%                    | 6.47%  | 7.53%  | 7.86%  | 8.46%  | 8.96%  |
| 6.00%            | 6.67%                    | 7.06%  | 8.22%  | 8.57%  | 9.23%  | 9.77%  |
| 6.50%            | 7.22%                    | 7.65%  | 8.90%  | 9.29%  | 10.00% | 10.59% |
| 7.00%            | 7.78%                    | 8.24%  | 9.59%  | 10.00% | 10.77% | 11.40% |
| 7.50%            | 8.33%                    | 8.82%  | 10.27% | 10.71% | 11.54% | 12.21% |
| 8.00%            | 8.89%                    | 9.41%  | 10.96% | 11.43% | 12.31% | 13.03% |
| 8.50%            | 9.44%                    | 10.00% | 11.64% | 12.14% | 13.08% | 13.84% |
| 9.00%            | 10.00%                   | 10.59% | 12.33% | 12.86% | 13.85% | 14.66% |
| 9.50%            | 10.56%                   | 11.18% | 13.01% | 13.57% | 14.62% | 15.47% |
| 10.00%           | 11.11%                   | 11.76% | 13.70% | 14.29% | 15.38% | 16.29% |
| 10.50%           | 11.67%                   | 12.35% | 14.38% | 15.00% | 16.15% | 17.10% |
| 11.00%           | 12.22%                   | 12.94% | 15.07% | 15.71% | 16.92% | 17.92% |

Note: The maximum marginal tax rate for each bracket was used in calculating the taxable yield equivalent.

Performance Comparisons

Advertising and sales literature may include:

- references to ratings, rankings and financial publications and/or performance comparisons of Common Shares to certain indices;
- charts, graphs and illustrations using the Fund's returns, or returns in general, that demonstrate investment concepts such as tax-deferred compounding, dollar-cost averaging and systematic investment;
- discussions of economic, financial and political developments and their impact on the securities market, including the portfolio manager's views on how such developments could impact the Fund; and
- information about the mutual fund industry from sources such as the Investment Company Institute.

The Fund may compare its performance, or performance for the types of securities in which it invests, to a variety of other investments, including federally insured bank products such as bank savings accounts, certificates of deposit, and Treasury bills. Advertisements may contain a chart showing average tax-adjusted returns and volatility of returns for the last 10 years ending October 31, 2002 for indices of municipal bonds, corporate bonds, U.S. Treasury securities, high-yield securities, mortgage-backed securities, the S&P 500, the Russell 2000 and NASDAQ.

The Fund may quote information from reliable sources regarding individual countries and regions, world stock exchanges, and economic and demographic statistics.

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

Lipper Analytical Services, Inc.

Lipper Analytical Services, Inc. ranks funds in various fund categories based on total return.

Morningstar, Inc.

Morningstar, Inc., an independent rating service, is the publisher of the bi-weekly Mutual Fund Values. Mutual Fund Values rates more than 1,000 NASDAQ-listed mutual funds of all types, according to their risk-adjusted returns.

Money

Money, a monthly magazine, regularly ranks money market funds in various categories based on the latest available seven-day effective yield.

Lehman Brothers Municipal Bond Index

Lehman Brothers Municipal Bond Index is an unmanaged broad based total return performance benchmark for the long-term, investment grade bond market.

### FEDERATED INVESTORS, INC.

Federated is dedicated to meeting investor needs by making structured, straightforward and consistent investment decisions. Federated investment products have a history of competitive performance and have gained the confidence of thousands of financial institutions and individual investors.

Federated's disciplined investment selection process is rooted in sound methodologies backed by fundamental and technical research. At Federated, success in investment management does not depend solely on the skill of a single portfolio manager. It is a fusion of individual talents and state-of-the-art industry tools and resources. Federated's investment process involves teams of portfolio managers and analysts, and investment decisions are executed by traders who are dedicated to specific market sectors and who handle trillions of dollars in annual trading volume.

Municipal Funds. In the municipal sector, as of December 31, 2001, Federated managed 12 bond funds with approximately \$2.3 billion in assets and 22 money market funds with approximately \$19.5 billion in total assets. In 1976, Federated introduced one of the first municipal bond mutual funds in the industry and is now one of the largest institutional buyers of municipal securities. The Funds may quote statistics from organizations including The Tax Foundation and the National Taxpayers Union regarding the tax obligations of Americans.

The Chief Investment Officers responsible for oversight of the various investment sectors within Federated are William D. Dawson III--Global and Fixed Income and Stephen F. Auth--Federated Global and Equity. The Chief Investment Officers are Executive Vice Presidents of the Federated advisory companies.

EXPERTS

The financial statements of the Fund at December 16, 2002 appearing in this Statement of Additional Information have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

A Registration Statement on Form N-2, including amendments thereto, relating to the shares offered hereby, has been filed by the Fund with the Securities and Exchange Commission, Washington, D.C. The prospectus and this Statement of Additional Information do not contain all of the information set forth in the Registration Statement, including any exhibits and schedules thereto. For further information with respect to the Fund and the shares offered hereby, reference is made to the Registration Statement. Statements contained in the prospectus and this Statement of Additional Information as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. A copy of the Registration Statement may be inspected without charge on the EDGAR Database at the Commission's website at <http://www.sec.gov> or at the Commission's principal office in Washington, D.C., and copies of all or any part thereof may be obtained from the Commission upon the payment of certain fees prescribed by the Commission. The Fund changed its name from Federated Municipal Income Fund to Federated Premier Municipal Income Fund on December 16, 2002.

INDEPENDENT AUDITORS' REPORT

Report of Ernst & Young LLP, Independent Auditors

To the Shareholders and  
Board of Trustees of  
Federated Premier Municipal Income Fund

We have audited the accompanying statement of assets and liabilities of Federated Premier Municipal Income Fund (the Fund) as of December 16, 2002. This financial statement is the responsibility of the Fund's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of Federated Premier Municipal Income Fund at December 16, 2002, in conformity with accounting principles generally accepted in the United States of America.

[GRAPHIC OMITTED]

Boston, Massachusetts  
December 16, 2002

FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES December 16, 2002

|   |             |
|---|-------------|
| Assets:   |             |
| Cash  | \$100,003   |
| Deferred Offering Costs   | 200,000     |
| <br>Total Assets  | <br>300,003 |
| Liabilities:  |             |
| Offering Costs Payable  | (200,000)   |
| Total Liabilities   | (200,000)   |
| Net Assets (6,981 shares of \$0.01 par value shares of beneficial interest issued and outstanding; unlimited authorized shares) |             |
|   | \$100,003   |
| Net Asset Value Per Share   |             |
|   | \$14.33     |
| Maximum Offering Price Per Share (100/95.50 of \$14.33)   |             |
|   | \$15.00     |

NOTES TO FINANCIAL STATEMENTS

1. Organization

Federated Premier Municipal Income Fund ("the Fund") was organized as a Delaware Statutory Trust on October 16, 2002. The Fund has had no operations to date other than matters relating to its organization and registration as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended, and the sale and issuance to Federated Investment Management Company ("the Investment Adviser"), a wholly owned subsidiary of Federated Investors, Inc., of 6,981 shares of beneficial interest at an aggregate purchase price of \$100,003.

2. Accounting Policies

The preparation of financial statements in accordance with generally accepted accounting principles 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 estimates.

3. Investment Adviser and Related Parties

The Fund has entered into an Investment Management Agreement (the "Agreement") with the Investment Adviser to serve as investment manager to the Fund. Pursuant to the Agreement, the Fund pays the Investment Adviser an annual management fee, payable daily, at the annual rate of 0.55 % of the Fund's average daily net assets.

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In order to reduce fund expenses, the Investment Adviser has contractually agreed to waive a portion of its management fee at the annual rate of 0.20% of the Fund's average daily net assets, not inclusive of any net assets attributable to any preferred shares that may be issued, from the commencement of operations through December 31, 2007, and for a declining amount thereafter through December 31, 2010.

Federated Services Company ("FServ"), under the Administrative Services Agreement, provides the Fund with administrative personnel and services. The fee paid to FServ is based on a scale that ranges from 0.150% to 0.075% of the average aggregate daily net assets of all funds advised by subsidiaries of Federated Investors, Inc., subject to a \$125,000 minimum per portfolio and \$30,000 per each additional class.

#### 4. Organization Expenses and Offering Costs

Based on an estimated Fund offering of 5,850,000 shares, organization expenses and offering costs are estimated to be \$461,114. The Investment Adviser has agreed to pay i) all organizational costs; and ii) the amount by which the aggregate of all of the Fund's offering costs (other than sales load) exceed \$0.03 per share. Such amount to be paid by the Investment Adviser is \$285,614. The Fund will pay offering costs estimated at \$175,500 from the proceeds of the offering. Offering costs paid by the Fund will be charged as a reduction of paid-in capital at the completion of the Fund offering.

#### 5. Federal Income Taxes

The Fund intends to comply with the provisions of the Internal Revenue Code, as amended, applicable to regulated investment companies and to distribute to shareholders each year substantially all of its income. Accordingly, no provision for federal tax is necessary. In addition, by distributing substantially all of its ordinary income and long-term capital gains, if any, during each calendar year, the Fund intends not to be subject to federal excise tax.

#### 6. Contingent Receivable from Investment Adviser

In the event that the public offering of the Fund does not occur, the Investment Adviser has agreed to reimburse the Fund for all offering costs.

### APPENDIX A RATINGS OF INVESTMENTS

#### Standard and Poor's Long-Term Debt Rating Definitions

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

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

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

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

BB--Debt rated BB has less near-term vulnerability to default than other



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

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

CCC--Debt rated CCC has a currently identifiable vulnerability to default, and is dependent upon favorable business, financial and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial or economic conditions, it is not likely to have the capacity to pay interest and repay principal. The CCC rating category is also used for debt subordinated to senior debt that is assigned an actual or implied B or B- rating.

CC--The rating CC typically is applied to debt subordinated to senior debt that is assigned an actual or implied CCC debt rating.

C--The rating C typically is applied to debt subordinated to senior debt which is assigned an actual or implied CCC debt rating. The C rating may be used to cover a situation where a bankruptcy petition has been filed, but debt service payments are continued.

Moody's Investors Service Long-Term Bond Rating Definitions

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

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

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

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

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

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

CAA--Bonds which are rated CAA are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

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CA--Bonds which are rated CA represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C--Bonds which are rated C are the lowest-rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Fitch Ratings Long-Term Debt Rating Definitions

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

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

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

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

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

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

CCC--Bonds have certain identifiable characteristics which, if not remedied, may lead to default. The ability to meet obligations requires an advantageous business and economic environment.

CC--Bonds are minimally protected. Default in payment of interest and/or principal seems probable over time.

C--Bonds are imminent default in payment of interest or principal.

Moody's Investors Service Commercial Paper Ratings

Prime-1--Issuers rated Prime-1 (or related supporting institutions) have a superior capacity for repayment of short-term promissory obligations. Prime-1 repayment capacity will normally be evidenced by the following characteristics: Leading market positions in well-established industries; High rates of return on funds employed; Conservative capitalization structure with moderate reliance on debt and ample asset protection; Broad margins in earning coverage of fixed financial charges and high internal cash generation; and Well-established access to a range of financial markets and assured sources of alternate liquidity.

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

Standard and Poor's Commercial Paper Ratings

A-1--This designation indicates that the degree of safety regarding timely

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payment is strong. Those issues determined to possess extremely strong safety characteristics are denoted with a plus sign (+) designation. A-2--Capacity for timely payment on issues with this designation is satisfactory. However, the relative degree of safety is not as high as for issues designated A-1.

### Fitch Ratings Commercial Paper Rating Definitions

FITCH-1--(Highest Grade) Commercial paper assigned this rating is regarded as having the strongest degree of assurance for timely payment.

FITCH-2--(Very Good Grade) Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than the strongest issues.

### Addresses

federated PREMIER municipal INCOME FUND  
Federated Investors Funds  
5800 Corporate Drive  
Pittsburgh, PA 15237-7000

### Underwriter

Merrill Lynch, Pierce, Fenner & Smith Incorporated  
4 World Financial Center  
New York, NY 10080

### Investment Adviser

Federated Investment Management Company  
Federated Investors Tower  
1001 Liberty Avenue  
Pittsburgh, PA 15222-3779

### Custodian

State Street Bank and Trust Company  
P. O. Box 8600  
Boston, MA 02266-8600

### Transfer Agency and Dividend Disbursing Agent

EquiServe Trust Company, N.A.  
P.O. Box 43011  
Providence, RI 02940-3011

### Independent Auditors

Ernst & Young LLP  
200 Clarendon Street  
Boston, MA 02116-5072

CUSIP 31423P108

PART C. OTHER INFORMATION.

Item 24. Financial Statements and Exhibits.

Financial Statements:

Part A: Financial Highlights (unaudited) dated February 3, 2003

Part B: Audited Statement of Assets and Liabilities dated December 16, 2002

Financial Highlights (unaudited) dated February 3, 2003

Portfolio of Investments (unaudited) dated February 3, 2003

Statement of Assets and Liabilities (unaudited) dated February 3, 2003

Statement of Operations (unaudited) dated February 3, 2003

Statement of Changes in Net Assets (unaudited) dated February 3, 2003

Exhibits:

- (a) (i) Copy of Amended and Restated Declaration of Trust of the Registrant; (3)
- (a) (ii) Conformed copy of Amended and Restated Certificate of Trust of the Registrant; (4)
- (a) (iii) Copy of Statement of Preferences of the Registrant (incorporated by reference to Appendix A of Registrant's Statement of Additional Information; (3)
- (b) Copy of Amended and Restated By-Laws of the Registrant; (3)
- (c) Not applicable;
- (d) Form of Stock Certificate of the Registrant; (3)
  - (i) Form of Preferred Shares certificate of the Registrant; (6)
  - (e) Copy of Registrant's dividend reinvestment plan; (3)
  - (f) Not applicable;
  - (g) Conformed copy of Investment Management Agreement of the Registrant; (3)

---

+ All exhibits are being filed electronically.

- 3. Response is incorporated to Registrant's Pre-Effective Amendment No. 3 to its Registration Statement filed on Form N-2 on December 17, 2002 (File Nos. 333-100605 and 811-21235).
- 4. Response is incorporated to Registrant's Pre-Effective Amendment No. 4 to its Registration Statement filed on Form N-2 on December 19, 2002 (File Nos. 333-100605 and 811-21235).
- 6. Response is incorporated to Registrant's Pre-Effective Amendment No. 3 to its Registration Statement (Preferred Shares) filed on Form N-2 on February 12, 2003 (File Nos. 333-102033 and 811-21235).

- (h) Conformed Copy of Master Agreement Among Underwriters; (3)
  - (i) Conformed copy of Purchase Agreement (Common Shares); (6)

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- (ii) Form of Standard Dealer Agreement of Merrill Lynch and Co.; (3)
- (iii) Conformed copy of Additional Compensation Agreement; (6)
- (iv) Form of Purchase Agreement (Preferred Shares); (6)
- (i) Not applicable;
- (j) Conformed copy of custodian agreement; (3)
  - (i) Copy of Global Custody Fee Schedule; (3)
- (ii) Copy of Addendum to Global Custody Fee Schedule; (3)
- (iii) Copy of Portfolio Recordkeeping Fee Schedule; (3)
- (iv) Copy of Domestic Custody Fee Schedule; (3)
- (k) Conformed copy of Amended and Restated Agreement for Fund Accounting Services, Administrative Services, Transfer Agency Services and Custody Services Procurement; (3)
  - (i) Conformed copy of Indemnification Agreement (Common Shares) between the Registrant and the Adviser; (6)
  - (ii) Conformed copy of Transfer Agency Agreement of the Registrant; (6)
  - (iii) Form of Auction Agency Agreement; (6)
  - (iv) Form of Broker/Dealer Agreement; (6)
  - (v) Form of Indemnification Agreement (Preferred Shares) between the Registrant and the Adviser; (6)
  - (vi) Form of Depository Trust Company Letter of Representations; (6)
- (l) Conformed copy of Opinion and Consent of Counsel as to legality of shares being registered; (5)
- (m) Not applicable;
- (n) Conformed copy of Consent of Independent Auditors; (5)
- (o) Not applicable;
- (p) Form of Letter Agreement between the Registrant and the Adviser to Purchase Shares; (4)
- (q) Not applicable;
- (r) The Registrant hereby incorporates the conformed copy of the Code of Ethics for Access Persons from Item 23(p) of the Federated Managed Allocation Portfolios Registration Statement on Form N-1A filed with the Commission on January 25, 2001. (File Nos. 33-51247 and 811-7129).
- (s) Conformed copy of the Power of Attorney of the Registrant. (3)

Item 25. Marketing Arrangements

Reference is made to the Master Agreement Among Underwriters filed as exhibit (h) to Pre-Effective Amendment No. 3 on December 17, 2002.

- 
- + All exhibits are being filed electronically.
  - 3. Response is incorporated to Registrant's Pre-Effective Amendment No. 3 to its Registration Statement filed on Form N-2 on December 17, 2002 (File Nos. 333-100605 and 811-21235).
  - 4. Response is incorporated to Registrant's Pre-Effective Amendment No. 4 to its Registration Statement filed on Form N-2 on December 19, 2002 (File Nos. 333-100605 and 811-21235).
  - 5. Response is incorporated to Registrant's Pre-Effective Amendment No. 2 to its Registration Statement (Preferred Shares) filed on Form N-2 on February 10, 2003 (File Nos. 333-102033 and 811-21235).

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6. Response is incorporated to Registrant's Pre-Effective Amendment No. 3 to its Registration Statement (Preferred Shares) filed on Form N-2 on February 12, 2003 (File Nos. 333-102033 and 811-21235).

Item 26. Other Expenses of Issuance and Distribution\*

|                          |              |
|--------------------------|--------------|
| Registration Fee:        | \$4,938.10   |
| Rating Fees:             | \$65,000.00  |
| Printing:                | \$5,000.00   |
| Legal fees and expenses: | \$110,000.00 |

\*Estimated

Item 27. Persons Controlled by or Under Common Control with the Fund:

None

Item 28. Number of Holders of Securities

As of June 13, 2003, set forth below is information concerning record holders of the Fund's securities:

| Title of Class | Number of Record Holders |
|----------------|--------------------------|
| Common Shares  | 32                       |
| AMPS           | 1                        |

Item 29. Indemnification:

Indemnification is provided to Officers and Trustees of the Registrant pursuant to Article V of Registrant's Declaration of Trust. The Investment Management Agreement between the Registrant and Federated Investment Management Company ("Adviser") provides that, in the absence of willful misfeasance, bad faith, gross negligence, or reckless disregard of the obligations or duties under the Investment Management Agreement on the part of Adviser, Adviser shall not be liable to the Registrant or to any shareholder for any act or omission in the course of or connected in any way with rendering services or for any losses that may be sustained in the purchase, holding, or sale of any security. Registrant's Trustees and Officers are covered by an Investment Trust Errors and Omissions Policy. The Purchase Agreement between the Registrant, the Adviser and the Underwriters named therein provides for indemnification of the Underwriters by the Registrant and the Adviser and of the Registrant and the Adviser and their officers and trustees for certain liabilities and also provides for contribution under certain circumstances. The Indemnification Agreement between the Registrant and the Adviser provides for indemnification of the Registrant and its officers and trustees for certain liabilities.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to Trustees, Officers, and controlling persons of the Registrant by the Registrant pursuant to

the Declaration of Trust or otherwise, the Registrant is aware that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and, therefore, is unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by Trustees), Officers, or controlling persons of the Registrant in connection with the successful defense of any act, suit, or proceeding) is asserted by such Trustees, Officers, or controlling persons in connection with the shares being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issues.

Insofar as indemnification for liabilities may be permitted pursuant to Section 17 of the Investment Company Act of 1940 for Trustees, Officers, and controlling persons of the Registrant by the Registrant pursuant to the Declaration of Trust or otherwise, the Registrant is aware of the position of the Securities and Exchange Commission as set forth in Investment Company Act Release No. IC-11330. Therefore, the Registrant undertakes that in addition to complying with the applicable provisions of the Declaration of Trust or otherwise, in the absence of a final decision on the merits by a court or other body before which the proceeding was brought, that an indemnification payment will not be made unless in the absence of such a decision, a reasonable determination based upon factual review has been made (i) by a majority vote of a quorum of non-party Trustees who are not interested persons of the Registrant or (ii) by independent legal counsel in a written opinion that the indemnitee was not liable for an act of willful misfeasance, bad faith, gross negligence, or reckless disregard of duties. The Registrant further undertakes that advancement of expenses incurred in the defense of a proceeding (upon undertaking for repayment unless it is ultimately determined that indemnification is appropriate) against an Officer, Trustee or controlling person of the Registrant will not be made absent the fulfillment of at least one of the following conditions: (i) the indemnitee provides security for his undertaking; (ii) the Registrant is insured against losses arising by reason of any lawful advances; or (iii) a majority of a quorum of disinterested non-party Trustees or independent legal counsel in a written opinion makes a factual determination that there is reason to believe the indemnitee will be entitled to indemnification.

Item 30. Business and Other Connections of Investment Adviser:

For a description of the other business of the investment adviser, see the section entitled "Management of the Fund" in Part A. The affiliations with the Registrant of four of the Trustees and one of the Officers of the investment adviser are included in Part B of this Registration Statement under "Management of the Fund" The remaining Trustees of the investment adviser and, in parentheses, their principal occupations are: Thomas R. Donahue, (Chief Financial Officer, Federated Investors, Inc.), 1001 Liberty Avenue, Pittsburgh, PA, 15222-3779 and Mark D. Olson (a principal of the firm, Mark D. Olson & Company, L.L.C. and Partner, Wilson, Halbrook

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& Bayard, P.A.), 800 Delaware Avenue, P.O. Box 2305,  
Wilmington, DE 19899-2305.

The remaining Officers of the investment adviser are:

|  |  |
|--|--|
| Vice Chairman:                                     | J. Thomas Madden   |
| President/ Chief Executive Officer<br>and Trustee: | Keith M. Schappert   |
| Executive Vice Presidents:                         | Stephen F. Auth<br>William D. Dawson, III  |
| Senior Vice Presidents:                            | Joseph M. Balestrino<br>David A. Briggs<br>Jonathan C. Conley<br>Christopher F. Corapi<br>Deborah A. Cunningham<br>Linda A. Duessel<br>Mark E. Durbiano<br>James E. Grefenstette<br>Robert M. Kowit<br>Jeffrey A. Kozemchak<br>Susan M. Nason<br>Mary Jo Ochson<br>Robert J. Ostrowski<br>Frank Semack<br>Richard Tito<br>Peter Vutz                               |
| Vice Presidents:                                   | Todd A. Abraham<br>J. Scott Albrecht<br>Randall S. Bauer<br>Nancy J. Belz<br>G. Andrew Bonnewell<br>David M. Bruns<br>Robert E. Cauley<br>Regina Chi<br>Ross M. Cohen<br>Fred B. Crutchfield<br>Lee R. Cunningham, II<br>Alexandre de Bethmann<br>B. Anthony Delserone, Jr.  |
| Donald T. Ellenberger                              | Eamonn G. Folan<br>John T. Gentry<br>David P. Gilmore<br>Curtis R. Gross<br>Marc Halperin<br>John W. Harris<br>Patricia L. Heagy<br>Susan R. Hill<br>Nikola A. Ivanov<br>William R. Jamison<br>Constantine J. Kartsonas<br>Nathan H. Kehm<br>John C. Kerber<br>J. Andrew Kirschler<br>Steven Lehman<br>Marian R. Marinack<br>Natalie F. Metz<br>Thomas J. Mitchell |



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Joseph M. Natoli  
John L. Nichol  
Mary Kay Pavuk  
Jeffrey A. Petro  
John P. Quartarolo  
Ihab L. Salib  
Roberto Sanchez-Dahl, Sr.  
Aash M. Shah  
John Sidawi  
Michael W. Sirianni, Jr.  
Christopher Smith  
Timothy G. Trebilcock  
Leonardo A. Vila  
Stephen J. Wagner  
Paige M. Wilhelm  
Richard M. Winkowski, Jr.  
Lori A. Wolff  
George B. Wright

Assistant Vice Presidents:

Lori Andrews  
Catherine A. Arendas  
Nicholas P. Besh  
Hanan Callas  
David W. Cook  
James R. Crea, Jr.  
Karol M. Crummie  
David Dao  
Richard J. Gallo  
Kathyrn P. Glass  
Igor Golalic  
James Grant  
Anthony Han  
Carol B. Kayworth  
Angela A. Kohler  
Robert P. Kozlowski  
Ted T. Lietz, Sr.  
Monica Lugani  
Tracey L. Lusk  
Ann Manley  
Theresa K. Miller  
Karl Mocharko  
Bob Nolte  
Rae Ann Rice  
Jennifer G. Setzenfand  
Diane R. Startari  
Kyle D. Stewart  
Mary Ellen Tesla  
Nichlas S. Tripodes  
Michael R. Tucker  
Mark Weiss

Secretary:

G. Andrew Bonnewell

Treasurer:

Thomas R. Donahue

Assistant Secretaries:

Jay S. Neuman  
Leslie K. Ross

Assistant Treasurer:

Denis McAuley, III

The business address of each of the Officers of the investment adviser is Federated Investors Tower, 1001 Liberty Avenue,

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Pittsburgh, Pennsylvania 15222-3779. These individuals are also officers of a majority of the investment advisers to the investment companies in the Federated Fund Complex described in Part B of this Registration Statement.

### Item 31. Location of Accounts and Records:

All accounts and records required to be maintained by Section 31(a) of the Investment Company Act of 1940 and Rules 31a-1 through 31a-3 promulgated thereunder are maintained at one of the following locations:

|            |  |
|------------|--|
| Registrant | Reed Smith LLP<br>Investment and Asset<br>Management Group (IAMG)<br>Federated Investors Tower<br>12th Floor<br>1001 Liberty Avenue<br>Pittsburgh, PA 15222-3779<br>(Notices should be sent to the<br>Agent for Service at above<br>address) |
|            | Federated Investors Funds<br>5800 Corporate Drive<br>Pittsburgh, PA 15237-7000   |

|  |   |
|--|---|
| EquiServe Trust Co., N.A.<br>("Transfer Agent and Dividend<br>Disbursing Agent") | P.O. Box 43011<br>Providence, RI 02940-3011 |
|--|---|

|  |   |
|--|---|
| Federated Services<br>Company<br>("Administrator") | Federated Investors Tower<br>1001 Liberty Avenue<br>Pittsburgh, PA 15222-3779 |
|--|---|

((

|   |   |
|---|---|
| Federated Investment<br>Management Company<br>("Adviser") | Federated Investors Tower<br>1001 Liberty Avenue<br>Pittsburgh, PA 15222-3779 |
|---|---|

|   |  |
|---|--|
| State Street Bank and<br>Trust Company<br>("Custodian") | P.O. Box 8600<br>Boston, MA 02266-8600 |
|---|--|

Item 32. Management Services: Not applicable.

### Item 33. Undertakings:

The Registrant undertakes to suspend the offering of shares until the prospectus is amended if (1) subsequent to the effective date of its registration statement, the net asset value declines more than ten percent from its net asset value as of the effective date of the registration statement.

The Registrant undertakes that:

(a) for purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or

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497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(b) for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The Registrant undertakes to send by first class mail or other means designed to ensure equally prompt delivery within two business days of receipt of a written or oral request, the Registrant's Statement of Additional Information.

### SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant, FEDERATED PREMIER MUNICIPAL INCOME FUND, has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Pittsburgh and Commonwealth of Pennsylvania, on the 28th day of July, 2003.

#### FEDERATED PREMIER MUNICIPAL INCOME FUND

BY: /s/ Leslie K. Ross  
Leslie K. Ross, Assistant Secretary  
Attorney in Fact for John F. Donahue  
July 28, 2003

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following person in the capacity and on the date indicated:

| NAME  | TITLE   | DATE          |
|---|---|---------------|
| By: /s/ Leslie K. Ross<br>Leslie K. Ross<br>ASSISTANT SECRETARY | Attorney In Fact<br>For the Persons<br>Listed Below | July 28, 2003 |

| NAME                      | TITLE  |
|---------------------------|--|
| John F. Donahue*          | Chairman and Trustee                                   |
| J. Christopher Donahue*   | President and Trustee<br>(Principal Executive Officer) |
| Richard J. Thomas*        | Treasurer<br>(Principal Financial Officer)             |
| William D. Dawson, III*   | Chief Investment Officer                               |
| Thomas G. Bigley*         | Trustee  |
| John T. Conroy, Jr.*      | Trustee  |
| Nicholas P. Constantakis* | Trustee  |

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|                            |         |
|----------------------------|---------|
| John F. Cunningham*        | Trustee |
| Lawrence D. Ellis, M.D.*   | Trustee |
| Peter E. Madden*           | Trustee |
| Charles F. Mansfield, Jr.* | Trustee |
| John E. Murray, Jr.*       | Trustee |
| Marjorie P. Smuts*         | Trustee |
| John S. Walsh*             | Trustee |

\*by power of attorney