

FUNDS & PERSONAL FINANCE

MUTUAL FUND PROFILE

Top Federated Hermes Mutual Fund Likes Google, Is Cautious On Tesla

Buys Based On The Numbers

Managers aim to eliminate emotion from their winning investment decisions

BY PAUL KATZEFF
INVESTOR'S BUSINESS DAILY

Ask managers of mutual funds how they run their portfolios, and many — even managers of the best mutual funds — answer with jargon as impenetrable as a jungle. But not managers of \$178 million Federated Hermes MDT Large Cap Growth Fund (QILGX). One key element of their strategy requires plain-spoken, realistic assessment.

“We’ve come up with a process that’s designed to find winning stocks, manage risk and take some of the emotion out of investing in stocks that often have a very emotional investor base,” said Dan Mahr, lead manager of the fund. “We invest purely on the numbers behind companies.”

Rather than succumb to sentiment, the Federated team’s process includes measuring the sentiment of other investors and analysts.

Take wildly popular stocks such as Google-parent Alphabet (GOOGL) and electric car and battery manufacturer Tesla (TSLA).

News headlines paint Alphabet’s Google as facing a harsher regulatory future. Many Democrats and Republicans alike in Congress sound eager to push new restrictions on Google and other tech giants. Many legis-

lators talk about the need for breaking up the companies.

Large Cap Growth is among many of the best mutual funds that hold the stock. But managers of the fund see no need to hit the panic button. In fact, Alphabet looks like a solid stock with an attractive valuation to them. It ranks high on many of the 12 investment factors such as earnings-to-price trend, free cash flow and analyst conviction on which the managers score stocks.

“This is a stock that ticks all of the boxes (of the 12 investment factors),” Mahr said. “It has high growth. It has a strong price trend. Alphabet has bullish estimates from analysts and rising estimates for 2021 and cash flow. It’s not overleveraged. It has a cash-rich balance sheet.”

Mahr added, “At the same time, its share price doesn’t look ridiculous. In fact, right now it looks downright cheap. And that mix doesn’t happen without that negative story. If you look at all of the companies that have negative stories, sometimes those stories sink the ship. But overall, if you invest in companies like this, come out ahead of the benchmark.”

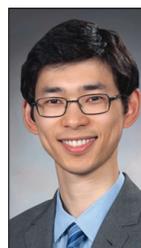
Damien Zhang, a co-manager along with Frederick Konopka and John Paul Lewicke, said, “Alphabet is a good instructive example of how real-world information translates through the investment process.”

Then there’s Tesla. It has a good B- Accumulation/Distribution (A/D) Rating from IBD. That means the stock is experi-

Federated Hermes MDT Large Cap Growth IS



Dan Mahr



Damien Zhang

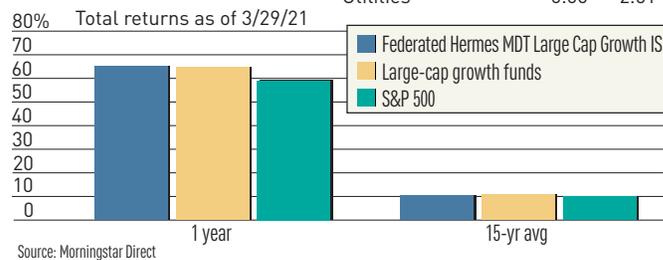
■ Load: None
 ■ Expenses: 0.75%
 ■ Symbol: QILGX

Total returns as of 3/29/21
 2020: 38.32% 3-yr. avg.: 21.18%
 YTD: 0.18% 5-yr. avg.: 20.23%
 10-yr. avg.: 15.01%

Sector weightings

Fund as of 12/31/20, S&P 500 as of 2/28/21

	% of stock assets	% of S&P 500
Cyclical	26.75%	
Basic materials	1.19	2.29%
Consumer cyclical	17.92	12.17
Financial services	7.06	14.28
Real estate	0.58	2.43
Economically sensitive	55.34	
Communication services	10.40	11.08
Energy	0.00	2.84
Industrials	4.94	8.81
Technology	40.00	23.97
Defensive	17.92	
Consumer defensive	3.56	6.40
Health care	14.36	13.22
Utilities	0.00	2.51



encing moderate net buying, according to IBD Stock CheckUp. For instance, between September and December 2020, fund ownership of the stock rose to 2,415 from 1,966, according to analysis by MarketSmith.

The trouble with Tesla is that investors have tapped the brakes since early in the new year. From an intraday high of 900.40 on Jan. 25, share price has plunged 26%, going into Thursday.

Many money managers, even among some of the best mutual funds, have stuck with Tesla. Some say Tesla’s technology

lead in electric vehicles can only grow. They note Tesla’s costs for making batteries are declining while the costs of making internal combustion engines are rising. Most rivals are playing catch-up in terms of technology.

China sales are up. A new car and battery factory in Germany is slated to open. In addition, batteries will likely continue to find additional applications.

Cautious about Tesla

Managers of Large Cap Growth like Tesla too, but with reservations.

“Tesla is an interesting case from the portfolio perspective,” Mahr said. “It’s not a name based on factors where we’re that highly positive. It’s in the portfolio primarily driven by risk modeling.” In other words, as long as the fund’s Russell 1000 Growth Index benchmark has a big bet on Tesla, it’s too risky for the fund to underweight the stock more than it already does.

“We are underweight in Tesla vs. the benchmark,” Mahr said. “It is a large company in the benchmark. If you are underweight by a lot and are wrong, it will be painful. Frankly, our thesis is that it’s best not to be too underweight. And in 2020, being too under-

weight was extremely painful.”

Zhang added, “A little while ago we were more bullish. Tesla has seen its positive sentiment evaporate over the last few months. It takes a very ambitious narrative to get justify the Tesla price.” If broad market sentiment about Tesla turns positive again, “we’d be interested in it again.”

Applied Materials (AMAT) makes equipment that’s used in manufacturing integrated circuits and display screens for smartphones and televisions, including flexible screens.

The stock is increasingly eliciting interest from this portfolio. Why does one of the best mutual funds like the stock? Zhang said,

“Applied Materials looks cheap on multiple factors such as profitability and earnings-to-price. How it is ranking has changed over time, especially since the beginning of the year. On top of that, it has reasonably good quality characteristics.”

Further, the managers like the return of cash to stakeholders. That’s its combination of dividends, share repurchased and debt repaid.

Zhang said, “Sometimes reasons for owning a stock change. A value stock can transition to a high-sentiment stock. We’re seeing that to some extent with Applied Materials. As its valuation comes out of rock bottom, we’re seeing extremely positive

signals from analysts. We’re seeing extremely good price trends. It’s been at 52-week high. Its short-term moving average is peaking ahead of its long-term averages.” That means its pricing is trending upward.

What makes this portfolio one of the best mutual funds? The fund is a 2021 IBD Best Mutual Funds Awards winner, having topped the S&P 500 in calendar 2020 as well as over the prior three, five and 10 years on an average-annual-return basis.

In fact, its 2020 return more than doubled the S&P 500’s, 38.32% vs. 18.4%.

C-class shares (QCLGX) require a \$1,500 minimum initial investment.

For more complete information, visit FederatedInvestors.com or contact your investment professional for a summary prospectus or prospectus. You should consider the fund's investment objectives, risks, charges and expenses carefully before you invest. Information about these and other important subjects is in the fund's summary prospectus or prospectus, which you should read carefully before investing.

Average Annual Total Returns (%) as of 3/31/21							
Federated MDT Large Cap Growth Fund	1 Year	3 Year	5 Year	10 Year	Since Inception (9/5/05)	Expense Ratio [†]	
						Before Waivers	After Waivers
Class IS (QILGX) NAV	63.00	21.48	20.33	15.04	10.64	1.16	0.75
Class C (QCLGX) NAV	61.40	20.26	19.14	13.89	9.82	1.11	0.89
Class C (QCLGX) LOAD	60.40	20.26	19.14	13.89	9.82	2.17	1.75
Russell 1000 [®] Growth Index	62.74	22.80	21.05	16.63	--	--	--

Performance quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than what is stated. To view performance current to the most recent month-end, and for after-tax returns, contact us or visit FederatedInvestors.com.

Load returns reflect the maximum contingent deferred sales charge of 1% for C Shares.

[†] The fund's expense ratio is from the most recent prospectus. The expense ratio may reflect voluntary fee waivers and/or expense reimbursements determined by the fund's Advisor and its affiliates. The voluntary waivers and/or reimbursements, if applicable, are in effect up to but not including the later of 10/1/21 or the date of the fund's next effective prospectus.

The fund is the successor to MDT Large Cap Growth Fund pursuant to a reorganization that took place on December 8, 2006. Prior to that date, the fund had no investment operations. Accordingly, the performance information shown for periods prior to that date is that of MDT Large Cap Growth Fund.

As of June 29, 2020, the fund was renamed Federated Hermes MDT Large Cap Growth Fund.

The holdings, which are referenced in the article, made up the following percentages of Federated MDT Large Cap Growth Fund's portfolio as of 3/31/21: Alphabet, 5.3%; Applied Materials, 0.4%; Tesla, 2.0%.

Holdings percentages are based on net assets at the close of business on March 31, 2021 and may not necessarily reflect adjustments that are routinely made when presenting net assets for formal financial statement purposes. Because this is a managed portfolio, the investment mix will change.

Mutual funds are subject to risks and fluctuate in value.

The quantitative models and analysis used by the fund may perform differently than expected and negatively affect fund performance.

Russell 1000[®] Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000[®] Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000[®] Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.

Total return would have been lower in the absence of temporary expense waivers or reimbursements.

The fund offers additional classes of shares. Performance for these classes will vary due to differences in charges in expenses.

The S&P 500 Index is an unmanaged capitalization-weighted index of 500 stocks designated to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

There is no guarantee that any investment approach will be successful. Current and future portfolio holdings are subject to risk.

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IBD's proprietary Accumulation-Distribution Rating analyzes a stock's price and volume trends over the prior 13 weeks.

IBD's Stock CheckUp analyzes changes in a stock's net buying.

Views are as of April 1, 2021, and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.



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