

## BEST ETFS & MUTUAL FUNDS

# Hot Fund Wins With Mix Of Pricy, Bargain Stocks

Managers hold many popular tech stocks, see Broadcom as value name

### MUTUAL FUND PROFILE

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How does one of the best mutual funds outperform without overweights in popular megacap technology stocks that have been key drivers of the broad market rally?

Answer: Largely through shrewd stock picking in other names. The fund is the \$217.6 million Federated Hermes MDT Large Cap Growth Fund (QIGLX).

Outperformance in multiple key time periods, both recent and longer-term, make this portfolio one of the best mutual funds.

And many of its key drivers have indeed been technology sector stocks. Those include FAANG stocks. But the fund has kept its allocation to megacap tech stocks to a slight underweight. "We're underweight in the megacap tech names, which has been a drag on our results," said lead manager Dan Mahr.

The fund's allocation to tech was 41% as of Sept. 30, according to Morningstar Direct.

How the fund manages to outperform is just as impressive as the outperformance itself. The fund holds all of the FAANG stocks that have been key drivers of the stock market. It owns Facebook (FB), now known as Meta Platforms, Apple (AAPL), Amazon.com (AMZN), Netflix (NFLX) and Google-parent Alpha-

bet (GOOGL).

The challenge for Mahr's fund is that the popular megacap technology stocks have ballooned into huge weightings in the bogey. And common-sense risk control compels a diversified stock fund to underweight those names. In fact, mutual funds other than sector funds are required to meet certain diversification requirements.

### Stock Picking

So the fund has had to rely on shrewd stock picking outside those popular megacaps to fuel the bulk of its outperformance. Holdings like Arista Networks (ANET), Fortinet (FTNT), HubSpot (HUBS) and Visa (V) have been key contributors, Mahr says.

The fund's additional managers are Damien Zhang, Frederick Konopka and John Paul Lewicke.

How has Arista helped make Large Cap Growth one of the best mutual funds? "Arista makes networking products, primarily switches and components used in big data centers," Mahr said. Data centers are the engine rooms of cloud computing. "So the fund has been a big beneficiary of the movement toward cloud computing." That shift has accelerated since the start of the coronavirus pandemic, Mahr says.

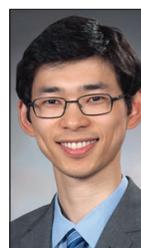
The fund's overall approach tracks a number of factors for each stock that the managers consider. It's a process that mixes fundamental analysis with quantitative number crunching.

"What our model likes about (this stock) is, on the sentiment side, earnings estimates being

### Federated Hermes MDT Large Cap Growth IS



Dan Mahr



Damien Zhang

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

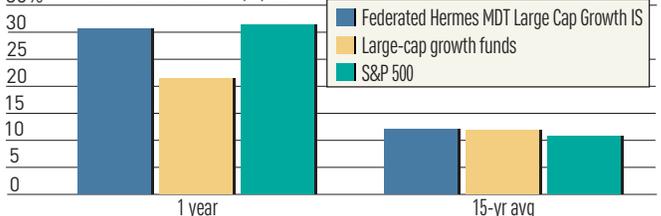
**Total returns** as of 1/4/22  
2021: 30.38% 3-yr. avg.: 32.33%  
YTD: -1.38% 5-yr. avg.: 24.08%  
10-yr. avg.: 18.48%

### Sector weightings

Fund as of 9/30/21, S&P 500 as of 12/31/21

	% of stock assets	% of S&P 500
<b>Cyclical</b>	<b>27.12%</b>	
Basic materials	0.97	2.27%
Consumer cyclical	17.70	12.29
Financial services	7.53	12.91
Real estate	0.92	2.77
<b>Economically sensitive</b>	<b>59.64</b>	
Communication svcs	12.50	10.16
Energy	0.51	2.67
Industrials	5.58	8.13
Technology	41.05	26.63
<b>Defensive</b>	<b>13.23</b>	
Consumer defensive	3.40	6.30
Health care	9.83	13.38
Utilities	0.00	2.50

35% Total returns as of 1/4/22



Source: Morningstar Direct

raised," Mahr said. "The estimates get beaten quarter after quarter."

Mahr likens Arista to someone selling picks and shovels to prospectors during the California Gold Rush, which began in 1848. Investors win without having to predict which prospector will strike it rich. They benefit from their stake in a company that sells something that all prospectors need.

In this case, investors don't have to guess which software will be the most popular. A large number of data center operators need Arista's infrastructure products.

"Arista is not cheap," Mahr

said. "It trades at about 50 times next year's earnings estimates. But for a stock leveraged to cloud computing, that is cheap." The broad market trades at a multiple in the mid-20s, Mahr says.

ServiceNow (NOW) is another name that's helped make Large Cap Growth one of the best mutual funds. The company started by supporting customers' information technology (IT) departments. It has expanded into support for other enterprise areas, such as human resources and facilities management. That expands ServiceNow's total addressable market.

Mahr said, "It is beating earnings estimates quarter after

quarter. Its price trend looks good." Still, its valuation is pricey at more than 100 times forward earnings, he says.

The company is earlier than, say, Arista in its life cycle, Mahr adds. The firm is still plowing earnings back into its own opportunities. Because of that, the firm is further from maturing to a point where it is ready to return cash to shareholders in the form of dividends or share buybacks, Mahr says. "Because of its valuation, it's less of an overweight in the portfolio than Arista is," Mahr said.

Broadcom (AVGO) is something of an oddball in the port-

folio. It plays a role in Large Cap Growth's hopes for remaining among the best mutual funds. Earnings per share for the maker of analog chips for the telecommunications, industrial, automotive and computing markets are expected to rise 18% this year, according to IBD MarketSmith analysis.

But "Broadcom is actually a value stock," Mahr said. "Our other holdings trade at above-market multiples. But Broadcom's multiple is only 20 times next year's (estimated) earnings. It announced a \$10 billion share buyback and a dividend. So it's a strong growth company at a

good price."

Zhang added, "Broadcom is best known as a major supplier of components for the iPhone. Broadcom is essentially a roll-up of several dozen leading semiconductor firms. It's like a semiconductor conglomerate. There is very strong market sentiment around this stock, which is trading at an all-time high."

Federated Hermes MDT Large Cap Growth Fund became an IBD Best Mutual Fund Awards winner by topping the S&P 500 in 2020 and in the three, five and 10 years ended Dec. 31.

With a 30.34% return, the fund outperformed again in

2021. That positioned it to repeat as an Awards winner in IBD's upcoming compilation. It topped the S&P 500's 28.71%. The fund's large-cap growth rivals tracked by Morningstar Direct were up 20.45% on average.

This year going into Wednesday, the fund is down 1.38% vs. a 0.58% gain by the large-cap bogey.

If you don't have access to institutional shares of the fund, you can buy A-class shares (QALGX) for a \$1,500 minimum initial investment.

The "MDT" in the fund's name is an echo of its inception as a fund run by MDT Advisors.

For more complete information, visit [FederatedInvestors.com](http://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 12/31/21							
Federated MDT Large Cap Growth Fund	1 Year	3 Year	5 Year	10 Year	Since Inception (9/15/05)	Expense Ratio <sup>†</sup>	
						Before Waivers	After Waivers
Class IS (QILGX) NAV	30.38	33.53	24.87	18.77	11.87	1.12	0.75
Class A (QALGX) NAV	30.05	33.19	24.56	18.46	11.58	1.37	1.00
Class A (QALGX) LOAD	22.88	30.71	23.16	17.79	11.19	1.37	1.00
Class C (QCLGX) NAV	29.07	32.20	23.64	17.75	11.16	2.12	1.75
Class C (QCLGX) LOAD	28.07	32.20	23.64	17.75	11.16	2.12	1.75
Russell 1000 <sup>®</sup> Growth Index	27.60	34.08	25.32	19.79	--	--	--

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](http://FederatedInvestors.com).

Load returns reflect the maximum contingent deferred sales charge of 1% for C Shares and 5.5% for A Shares.

<sup>†</sup> 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 10/1/22 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.

The holdings, which are referenced in the article, made up the following percentages of Federated Hermes MDT Large Cap Growth Fund's portfolio as of 12/31/21: Apple (AAPL), 10.24%; Alphabet (GOOGL), 6.03%; Amazon (AMZN), 3.59%; Fortinet (FTNT), 2.24%; Meta Platforms (FB) 1.78%; Broadcom (AVGO), 1.58%; Netflix (NFLX), 1.49%; Arista Networks (ANET), 1.79%; HubSpot (HUBS), 1.75%; ServiceNow (NOW), 0.70%; Visa (V), 0.00%.

Holdings percentages are based on net assets at the close of business on Dec. 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<sup>®</sup> Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000<sup>®</sup> Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000<sup>®</sup> 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.

FAANG stocks are Facebook (FB), now known as Meta Platforms, Apple (AAPL), Amazon.com (AMZN), Netflix (NFLX) and Google-parent Alphabet (GOOGL).

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

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Investor's Business Daily's 2022 Best Mutual Funds Awards are given to funds that have beaten a benchmark index in the past one-, three-, five- and 10-year periods ended 12/31/21. The award and performance quoted in the article refers to the fund's IS shares. References to best mutual fund in this article refer to the 2022 Best Mutual Funds Award from Investor's Business Daily.

Views are as of Jan. 7, 2022, 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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