

Investment

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Fixed Income Manager of 2022: Federated Hermes

by **Dinah Wisenberg Brin**

Diversification was the key to Federated Hermes Total Return Bond Fund's success last year.

The fund, which received the 2022 Envestnet Asset Manager of the Year Award in the Fixed Income category, outperformed both the Bloomberg Aggregate Bond and Bloomberg US Universal benchmark indexes in 2021, achieved an 18-basis point return and placed in the top quartile of Morningstar's intermediate core-plus bond fund peer group last year, according to Envestnet analysts.

"Our strategy was all about diversification, as we always try to generate alpha from multiple sources that include duration management, sector allocation, yield curve strategy, currency management as well as securities selection," Vice President and Senior Portfolio Manager Chengjun (Chris) Wu said. "We have different trades in the portfolio and we try to make sure those trades are as diversified, as uncorrelated as possible. So that's our secret sauce."

The fund, Wu said, "has one goal — to generate strong, risk-adjusted returns. It has been our strategy for decades, and this strategy over different market cycles has helped us generate a consistent, competitive performance, without taking excessive risks."

Although the 2021 strategy remained the same, the "market just allowed us to capture stronger performance," Wu explained. "Most of our trades worked extremely well. That includes shorter duration management, tactical yield curve strategy, and overweight to high-yield, investment-grade corporates, bank loans,



Jerome Conner, left

Title: Manager; **Years with firm:** 20; **Years in financial services:** 26

Chengjun (Chris) Wu, right

Title: Manager; **Years with firm:** 16; **Years in financial services:** 16

Investment/asset class focus: Fixed Income;
Asset management firm: Federated Hermes;
Year firm founded: 1955; **Number of employees:** 1,962;
AUM as of March 31, 2022: \$631.1 billion

trade finance and allocation to TIPS — Treasury Inflation-Protected Securities. They all had positive contributions last year."

Jerome Conner, vice president and senior portfolio manager, added that the team took advantage of the "re-opening trade" in the second half of 2020 and into 2021 by being overweight in the credit sectors.

Coming into 2022, fund managers expected interest rates would become a more dominant factor in generating returns, Conner said, citing inflation data and the Federal Reserve's acknowledgment that inflation wasn't transitory and it would start removing its accommodative monetary policy.

In the portfolio, Conner said, "we shortened the duration relative to the benchmark and as rates have gone up significantly in 2022, that was the largest positive contributor to our performance in the first quarter."

During periods of Fed rate-hiking cycles, the Treasury curve usually flattens, so managers positioned the portfolio by underweighting shorter securities and overweighting longer securities, Conner noted.

"As fixed income managers, we think that inflation and the corresponding response from the Federal Reserve are the greatest risk for the markets. The Fed, as 2022 has progressed,

has become more hawkish throughout that time," including a recently announced 50 bps rate increase and plans to draw down its balance sheet, Conner added.

"We think that quantitative easing was supportive for risk assets, and that's why we think this quantitative tightening that the Fed is going to go through is going to be negative for risk assets," he said.

The fund has gone underweight in its investment-grade corporate allocation, its high-yield allocation and its emerging market allocation and has reduced its exposure to bank loans. In addition to underweighting its benchmark duration, the fund is neutral to the yield curve and to the U.S. dollar.

Wu suggested that clients increase cash allocations in their portfolios, noting that cash yield may exceed 2% by the year-end. "For the first time in a long while, cash may be a reasonable alternative for investors to consider," he said.

Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. To obtain a summary prospectus or prospectus containing this and other information, contact us or view the prospectus provided on this website. Please carefully read the summary prospectus or prospectus before investing.

Average Annual Total Returns (%) as of 6/30/22								
Federated Hermes Total Return Bond Fund	1 Year	3 Year	5 Year	10 Year	Since inception	Performance inception	Expense Ratio [†]	
Institutional Shares (NAV)	-9.76	0.45	1.75	2.37	4.95	10/01/96	0.47*	0.49**
A Shares (NAV)	-10.26	-0.09	1.21	1.81	3.67	8/16/01	0.99*	0.94**
A Shares (Maximum offering price)	-14.32	-1.63	0.29	1.35	3.44	8/16/01	0.99*	0.94**

*Before Waivers **After Waivers

Performance data quoted represents past performance which is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. 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, visit FederatedInvestors.com and see the product page or call 1-800-341-7400.

[†]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 2/1/23 or the date of the fund's next effective prospectus.[†] Amount does not reflect net expenses incurred by investment companies in which the Fund may invest.

Federated Total Return Bond Fund's Overall Morningstar Rating™ was four stars based on risk-adjusted total return out of 566 funds in the Intermediate Core-Plus Bond Category as of 6/30/22. The overall rating is derived from a weighted average of the fund's 1-, 3-, 5- and 10-year average annual returns, as applicable.

For each fund with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive five stars, the next 22.5% receive four stars, the next 35% receive three stars, the next 22.5% receive two stars and the bottom 10% receive one star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating™ for a fund is derived from a weighted-average of the performance figures associated with its 3-, 5- and 10-year (if applicable) Morningstar Rating™ metrics. Ratings are for Institutional Shares; other classes may have different performance characteristics.

For the 1-, 3-, 5- and 10-year periods ended 6/30/22, the fund's A shares were ranked in the top 24% out of 607 funds, 20% out of 566 funds, 28% out of 504 funds and 56% out of 361 funds respectively in the Intermediate Core-Plus Bond funds category based on total return. Morningstar rankings do not include sales changes. Past performance is no guarantee of future results. For the 1-, 3-, 5- and 10-year periods ended 12/31/21, the fund's A shares were ranked in the top 31% out of 605 funds, 37% out of 569 funds, 50% out of 495 funds and 70% out of 353 funds respectively in the Intermediate Core-Plus Bond funds category based on total return. Morningstar rankings do not include sales changes. Past performance is no guarantee of future results.

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Bloomberg US Aggregate Bond Index is an unmanaged index composed of securities from the Bloomberg Government/Corporate Bond Index, mortgage-Backed Securities Index and the asset-Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indices are rebalanced monthly by market capitalization.

Bloomberg US Universal Index is an index that represents the union of the US Aggregate Index, US Corporate High-Yield, Investment Grade 144A Index, Eurodollar Index, US Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD denominated, taxable bonds that are rated either investment-grade or below investment-grade.

Indexes are unmanaged and cannot be invested in directly. Bond prices are sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices.

Diversification does not guarantee a profit nor protect against loss.

Alpha measures a fund's risk-adjusted performance. It represents the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. A positive value for alpha implies that the fund has performed better than would have been expected given its volatility. The higher the alpha, the better the fund's risk-adjusted performance.

Duration is a measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

International investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards. Prices of emerging markets securities can be significantly more volatile than the prices of securities in developed countries and currency risk and political risks are accentuated in emerging markets.

High-yield, lower-rated securities generally entail greater market, credit/default and liquidity risks and may be more volatile than investment grade securities.

The value of some mortgage-backed securities may be particularly sensitive to changes in prevailing interest rates, and although the securities are generally supported by some form of government or private insurance, there is no assurance that private guarantors or insurers will meet their obligations.

Total return represents the change in the value of an investment after reinvesting all income and capital gains. 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 differ due to differences in charges and expenses.



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