

# Federated Hermes Muni and Stock Advantage Fund

9/30/20

## Fund facts

### Performance inception date

9/26/03

### Benchmark

40% Russell 1000® Value Index/60% S&P Municipal Bond Index

### Morningstar category

Allocation - 30% to 50% Equity

### Lipper classification

Mixed-Asset Target Allocation Conservative Funds

### Fund assets

\$1.4 billion

### Ticker symbols

Institutional Shares - FMUIX

A Shares - FMUAX

C Shares - FMUCX

F Shares - FMUFX

### Key investment team

Linda Bakhshian, CPA, CA

R.J. Gallo, CFA®

Ann Ferentino, CFA®

### Yields (%)

30-day yield (IS)	1.23
30-day yield (A)	0.93
12-month yield (IS)	2.61
12-month yield (A)	2.37

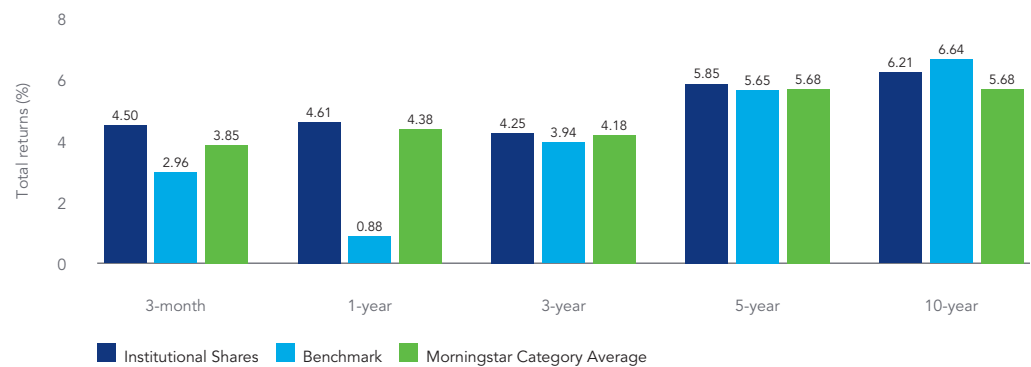
## Fund description

The fund seeks to provide tax-advantaged income, with a secondary objective of capital appreciation, by investing in a diversified portfolio of tax-exempt municipal bonds and dividend-paying stocks.

## Average annual total returns (%)

Performance shown is before tax.

	3-month	YTD	1-year	3-year	5-year	10-year	Since inception	Expense ratio*	
								Before waivers	After waivers
<b>Institutional Shares</b>	4.50	1.10	4.61	4.25	5.85	6.21	5.42	0.83	0.75
<b>A Shares (NAV)</b>	4.35	0.91	4.35	3.99	5.59	5.96	5.49	1.08	1.00
<b>A Shares (MOP)</b>	-1.41	-4.63	-1.37	2.05	4.40	5.36	5.14	1.08	1.00
<b>Benchmark</b>	2.96	-2.35	0.88	3.94	5.65	6.64	-	-	-



## After-tax average annual total returns (%)

	Net asset value					Maximum offering price				
	Cumulative 3-month	1-year	5-year	10-year	Since inception	Cumulative 3-month	1-year	5-year	10-year	Since inception
<b>Return after taxes on distributions</b>										
<b>IS</b>	4.27	3.76	5.16	5.67	4.99	-	-	-	-	-
<b>A</b>	4.15	3.58	4.93	5.44	5.08	-1.59	-2.10	3.76	4.85	4.73
<b>Return after taxes on distributions and sale of fund shares</b>										
<b>IS</b>	2.66	2.98	4.71	5.24	4.74	-	-	-	-	-
<b>A</b>	2.57	2.81	4.48	5.00	4.80	-0.83	-0.59	3.54	4.50	4.49

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). Maximum offering price figures reflect the maximum sales charge of 5.5% for A Shares. See the prospectus for other fees and expenses that apply to a continued investment in the fund. Total returns for periods of less than one year are cumulative.

\* 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 1/1/21 or the date of the fund's next effective prospectus.

## Distinguishing characteristics

<b>Tax-advantaged income</b>	Combination of tax-free munis and qualified dividend stocks in a single portfolio	Potential for relatively high, tax-advantaged monthly income and dividend growth as inflation protection
<b>Differentiated portfolio</b>	At least 50% in municipal bonds and diversified across all S&P 500 sectors	Broad diversification driven by low correlation between equity and muni asset classes
<b>Long-term potential</b>	Experienced team of managers seeking to provide tax-advantaged income in various market cycles	Potential for lower volatility than a typical equity fund and higher capital appreciation than a typical bond fund

## Portfolio statistics

Weighted average effective maturity	6.2 yrs.
Weighted average stated maturity	16.9 yrs.
Weighted average effective duration	7.3 yrs.
Weighted average modified duration	5.0 yrs.
Weighted average market cap	\$340.6 b

## Top holdings (%)

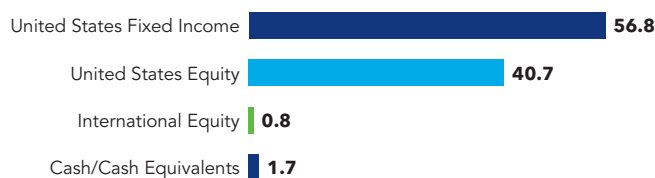
### Equity portfolio

Microsoft Corporation	1.7
Apple Inc.	1.6
Amazon.com, Inc.	1.5

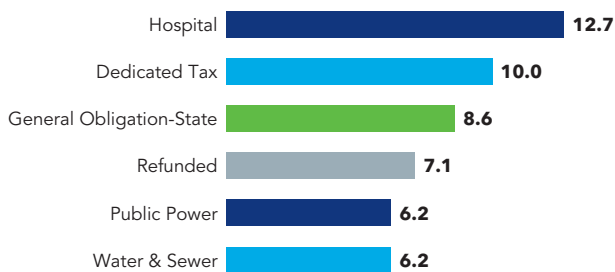
### Fixed-income portfolio

New York State Dormitory Authority, (Columbia University), Revenue Bonds (Series 2018A), 5.000%, 10/1/2048	0.8
Tobacco Settlement Financing Corp., NJ, Tobacco Settlement Asset-Backed Subordinate Refunding Bonds (Series 2018B), 5.000%, 06/01/2046	0.8
Puerto Rico Sales Tax Financing Corp., Restructured Sales Tax Bonds (Series 2019A), 5.000%, 07/01/2058	0.7

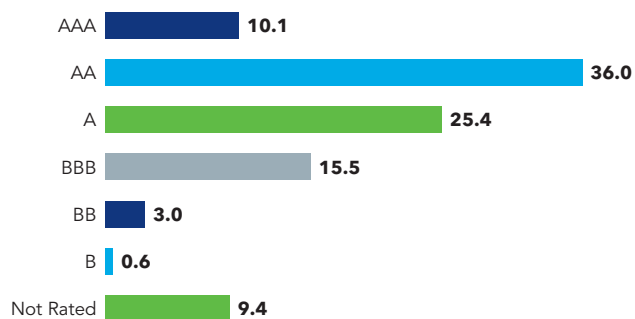
## Portfolio composition (%)



## Sector weightings (%) - Equity



## Quality breakdown<sup>1</sup> (%)



Portfolio composition is based on net assets at the close of business on 9/30/20 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.

## Highlights

- Equity markets were positive in the third quarter but momentum slowed
- Uncertainty about monetary and fiscal support, the pace of reopenings and the timing of a vaccine impacted performance—making the case for bulls and bears
- Led by stock selection in Consumer Discretionary and Health Care sectors, the equity portion of the fund outperformed its benchmark (Russell 1000 Value)

## Looking back

After returning 20.5% from April through June, its best quarter since 1993, S&P 500 returns moderated in the third quarter. July and August were positive, aided by momentum from a reopening economy, stronger-than-expected improvements in employment and manufacturing, the continuing strength of large technology companies and prospects for a vaccine sooner than later. But September gave back some of the gains as hopes for further short-term stimulus faded and economic progress fell short of heightened expectations. On the whole, the quarter saw the market march higher and rotate more toward cyclical value sectors as investors began to reposition for the presidential election and take profits out of growth stocks.

The municipal bond market posted modest positive returns during the quarter as the recovery began and U.S. Treasury yields held to generally narrow ranges. Despite still-muted economic activity, the ongoing pandemic and rising downgrades in various municipal sectors, investors attracted by elevated muni yields relative to Treasuries generated large net inflows into municipal bond mutual funds, boosting market demand. Municipal Market Data (MMD) 2-, 10- and 30-year yields decreased by 14, 3 and 1 basis points, respectively, during the quarter. Range-bound Treasury yields reflected the Federal Reserve's strong commitment to keeping short-term rates near zero for a number of years until inflation exceeds 2% and maximum employment is restored. Yields on 2-year Treasury securities declined 2 basis points, while the 10- and 30-year Treasury securities increased by 3 and 4 basis points, respectively, over the quarter.

During the quarter, the S&P 500 Index returned 8.93%, the Russell 1000 Value Index returned 5.59% and the Russell 1000 Growth returned 13.22%. Cyclical equities outperformed defensive and equities significantly outperformed Treasuries. The S&P Municipal Bond Index posted a return of 1.18%, with the 3-year component returning 0.65%, the 10-year component returning 1.16% and the portion of the index maturing in 22 years and longer returning 1.65%. The S&P High Yield Municipal Bond Index posted a return of 2.82%.

## Performance

Federated Hermes Muni and Stock Advantage Fund Institutional Shares returned 4.50% for the third quarter, outperforming the 2.96% return of the fund's blended benchmark of 40% Russell 1000 Value Index and 60% S&P Municipal Bond Index.

The fund's bond portfolio outperformed the S&P Municipal Bond index, with the portfolio's overweight position in BBB and lower quality bonds accounting for much of the outperformance, followed by favorable contribution from sector allocation. Modest contributions from duration and yield-curve positioning was offset by a negative contribution from security selection.

### Performance contributors

- Stock selection in the Consumer Discretionary and Health Care sectors
- Relative overweight in Consumer Discretionary and Consumer Staples
- Overweight in BBB and lower-quality bonds followed by sector allocation

### Performance detractors

- Stock selection in the Financials and Communication Services sectors
- A relative overweight in Energy and underweight in Information Technology sectors
- Security selection in the bond portfolio

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## How we are positioned

As we enter the fourth quarter, Covid-19 continues to dominate, with vaccine timing widely watched. While the global economy has started reopening, fears of a second wave continue as countries, states and regions grapple with controlling the coronavirus's spread to avoid renewed shutdowns. While there have been positive headlines on vaccine developments and experimental therapies, more progress must be made before the global economy can return to a new normal. Other areas of focus that could feed market volatility through the end of the year include the upcoming presidential and congressional elections, particularly if there is a Democratic sweep and/or contested election; corporate earnings—we expect managements to remain cautious until there is a vaccine in hand; and the possibility of additional fiscal stimulus—whoever wins, we expect either more spending or more tax cuts.

On the equity side, we have a positive bias toward higher-quality companies with strong credit, cash flows and balance sheets. While we like the technology sector given its strong structure growth rate, we are tilting toward cyclical sectors that are likely to benefit from global and U.S. economic growth into 2021, such as Industrials, Financials and Consumer Discretionary. These companies have been unduly punished in our view and are likely to emerge stronger.

Muni strategy integrates views on both interest rate and credit cycles. We attempt to add incremental return through active management of duration and credit risk, allocation among credit sectors, positioning on the yield curve and bond selection. The fund remains focused on intermediate and long-term securities and the tactical use of mid-to-lower credit quality bonds to enhance income and total return.

*See disclosure section for important disclosures and definitions.*

## Risk statistics

	3-year	5-year	7-year	10-year
<b>Standard deviation</b>	8.48	6.97	6.41	6.10
<b>Alpha</b>	-2.32	-1.01	-0.72	0.54
<b>Beta</b>	0.45	0.44	0.43	0.38
<b>Correlation</b>	0.95	0.93	0.91	0.83
<b>R<sup>2</sup></b>	89.65	86.64	83.15	69.44

Sources: Federated Hermes, Morningstar, Inc.

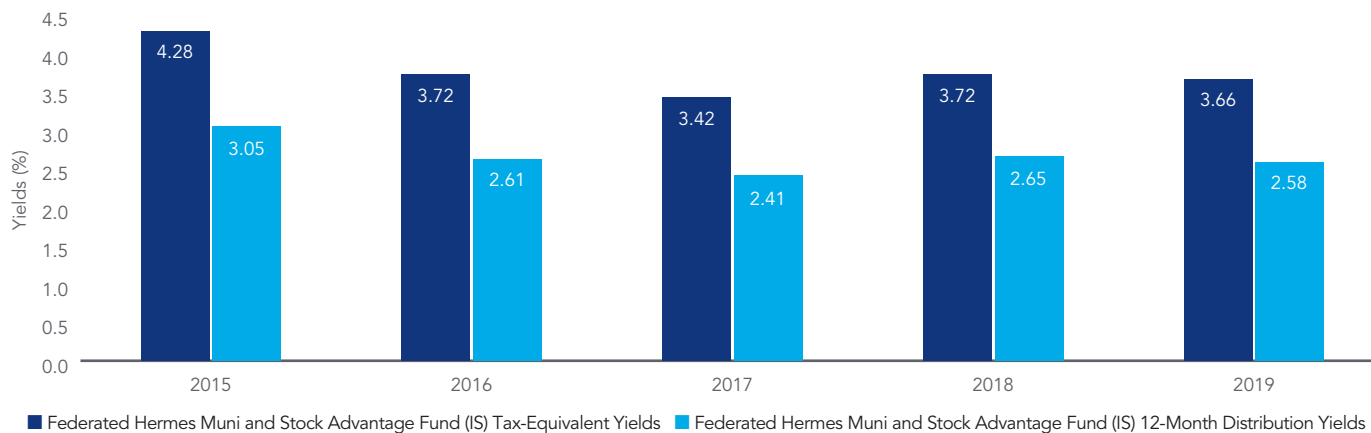
Fund vs. S&P 500 Index

See disclosure section for important definitions.

## 5-year risk/return



## History of a high level of tax-adjusted income



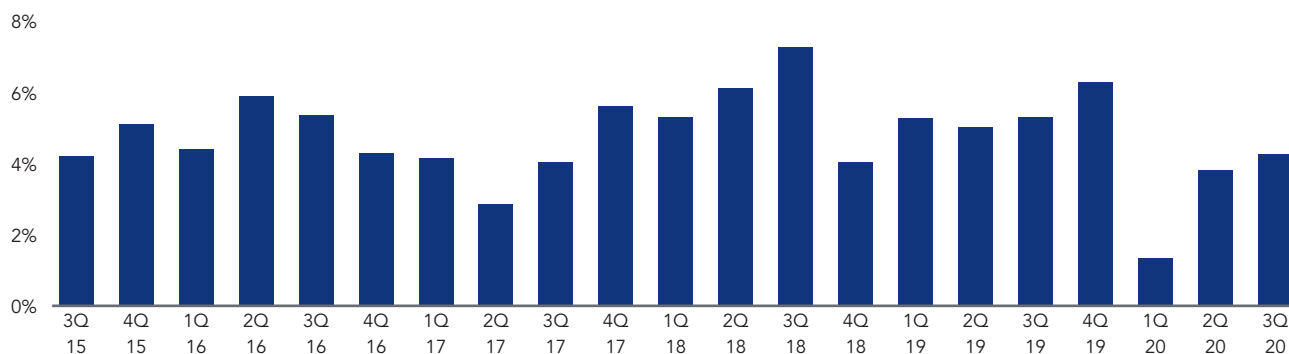
The calculation assumes a 40.8% tax rate (for 2019 and 2018) and 43.4% (for 2017, 2016 and 2015) for the muni portion; the equity portion was not tax adjusted. The tax equivalent yield assumes the highest marginal tax rate.

Source: Federated Hermes, Inc.

The 12-month distribution yield is calculated by adding up the trailing 12-month's income distributions from a fund and dividing by the last month's ending NAV (plus any capital gains distributed). This provides a historical view of actual dividends that were paid, but may not accurately represent the future.

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). Performance is at net asset value and does not reflect the maximum sales charge of 5.5% for A Shares. See the prospectus for other fees and expenses that apply to a continued investment in the fund.

## 3-year rolling returns (IS)



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## Category rankings

### Morningstar Allocation - 30% to 50% Equity Category

		1-year	3-year	5-year	10-year
<b>IS Shares</b>	Morningstar Category % Rank	57	58	50	29
	Morningstar Category Rank	304 of 547 funds	291 of 514 funds	221 of 450 funds	–
<b>A Shares</b>	Morningstar Category % Rank	59	64	59	38
	Morningstar Category Rank	316 of 547 funds	332 of 514 funds	262 of 450 funds	111 of 285 funds

### Lipper Mixed-Asset Target Allocation Conservative Funds

		1-year	3-year	5-year	10-year
<b>IS Shares</b>	Lipper Classification % Rank	65	52	26	–
	Lipper Classification Rank	196 of 301 funds	148 of 287 funds	68 of 265 funds	–
<b>A Shares</b>	Lipper Classification % Rank	68	57	30	17
	Lipper Classification Rank	204 of 301 funds	163 of 287 funds	79 of 265 funds	31 of 187 funds

Past performance is no guarantee of future results. Rankings are based on total return and do not take sales charges into account.

## Federated Hermes Muni and Stock Advantage Fund

As of June 29, 2020, the fund was renamed Federated Hermes Muni and Stock Advantage Fund.

<sup>1</sup>The ratings agencies that provided the ratings are Standard & Poor's, Moody's and Fitch. When ratings vary, the highest rating is used. Credit ratings of A or better are considered to be high credit quality; credit ratings of BBB are good credit quality and the lowest category of investment grade; credit ratings BB and below are lower-rated securities ("junk bonds"); and credit ratings of CCC or below have high default risk. The credit quality breakdown does not give effect to the impact of any credit derivative investments made by the fund.

30-day yield (also known as "SEC yield") is a compounded and annualized figure calculated according to a formula set by the SEC. The formula requires use of a specific methodology for calculating dividends and interest earned, and expenses accrued, during the period, and reflects the maximum offering price per fund share. The standardized computation is designed to facilitate yield comparisons among different funds. In the absence of temporary expense waivers or reimbursements, the 30-day yield would have been 0.86% for A Shares and 1.16% for IS Shares. Yields for other classes will vary. The 12-month yield is the sum of a fund's total trailing 12-month interest and dividend payments divided by the last month's ending share price (NAV) plus any capital gains distributed over the same period.

As indicated in its name, Federated Hermes Muni and Stock Advantage Fund invests in both municipal (muni) securities and equity securities (stock) as described in the fund's prospectus. Thus, the fund is not entirely a "tax-exempt" or "municipal" fund, and a portion of the income derived from the fund's portfolio (or dividend distributions) will be subject to federal income tax and state and local personal income tax.

The fund's Institutional Shares commenced operations on December 29, 2010. For the period prior to the commencement of operations of the Institutional Shares, the performance information shown is for the fund's A Shares. The performance of the A Shares has not been adjusted to reflect the expenses of the Institutional Shares, since the Institutional Shares had a lower expense ratio than the expense ratio of the A Shares. The performance of the A Shares has been adjusted to reflect the absence of sales charges and adjusted to remove any voluntary waiver of fund expenses related to the A Shares during the period prior to the commencement of operations of the Institutional Shares.

### A word about risk

Mutual funds are subject to risks and fluctuate in value.

International investing involves special risks, including currency risk, increased volatility, political risks and differences in auditing and other financial standards.

Prices of emerging market 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.

Bond prices are sensitive to changes in interest rates, and a rise in interest rates can cause a decline in their prices.

Fund income may be subject to state and local taxes. Although this fund pursues tax-advantaged income and seeks to invest primarily in securities whose interest is not subject to the federal alternative minimum tax, there are no assurances that it will achieve these goals.

There are no guarantees that dividend-paying stocks will continue to pay dividends. In addition, dividend-paying stocks may not experience the same capital appreciation potential as non-dividend-paying stocks.

### Definitions

**After-tax returns** are calculated using a standard set of assumptions. Actual after-tax returns depend on each investor's personal tax situation, and are likely to differ from those shown. The stated returns assume the highest historical federal income and capital gains tax rates, but do not reflect the effect of any applicable state and local taxes. Return After Taxes on Distributions assumes a continued investment in the fund and shows the effect of taxes on fund distributions. Return After Taxes on Distribution and Sale of Fund Shares assumes all shares were redeemed at the end of each measurement period, and shows the effect of any taxable gain (or offsetting loss) on redemption, as well as the effects of taxes on fund distributions. After-tax returns are not relevant to investors holding shares through tax-deferred programs, such as IRA, 401(k) plans. The after-tax average annual returns are based on the 37% tax bracket and include the 3.8% tax on net investment income.

**Alpha** shows how much or how little return is generated, given the risk a portfolio takes. A portfolio with an alpha greater than 0 has earned more than expected given its beta—meaning the portfolio has generated excess return without increasing risk. A portfolio with a negative alpha is producing a lower return than would be expected given its risk.

**Beta** measures a portfolio's volatility relative to the market. A beta greater than 1.00 suggests the portfolio has historically been more volatile than the market as measured by the fund's benchmark. A beta less than 1.00 suggests the portfolio has historically had less volatility relative to the market.

**Correlation** is the degree to which one variable (here, the fund's returns) fluctuates relative to another (the returns of the fund's benchmark). Correlation ranges from 1.00, when two variables move identically in the same direction, to -1.00, when two variables move identically in the opposite direction.

**R-squared** indicates what percentage of a portfolio's movement in performance is explained by movement in performance of the market. R-squared ranges from 0 to 100, and a score of 100 suggests that all movements of a portfolio's performance are completely explained by movements in the market as measured by the fund's benchmark.

**Standard deviation** is a historical measure of the variability of returns relative to the average annual return. A higher number indicates higher overall volatility.

**Weighted average effective duration** (sometimes called "Option-Adjusted Duration") is a measure of a security's price sensitivity to changes in interest rates calculated using a model that recognizes that the probability of a bond being called or remaining outstanding until maturity may vary if market interest rates change, and that makes adjustments based on a bond's embedded options (e.g., call rights, or in the case of a mortgage-backed security, the probability that homeowners will prepay their mortgages), if any, based on the probability that the options will be exercised. A fund's weighted average effective duration will equal the market value weighted average of each bond's effective duration in the fund's portfolio. As with any model, several assumptions are made so the weighted average effective duration of a fund in the Federated Hermes family of funds may not be comparable to other funds outside of the Federated Hermes family of funds. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

**Weighted average effective maturity** is the average time to maturity of debt securities held in the fund.

**Weighted average market capitalization** is calculated as the average market capitalization of the stocks within the portfolio, weighted by the amount of each stock owned.

**Weighted average modified duration** (sometimes called "Weighted Average Duration" or "Duration to Worst") is a measure of a security's price sensitivity to changes in interest rates calculated by assuming that a callable bond will be redeemed on the appropriate call date if the bond is priced to a call date or at maturity if priced to maturity. A fund's weighted average duration will equal the market value weighted average of each bond's weighted average duration in the fund's portfolio. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

**Weighted average stated maturity** is the stated term or maturity of each portfolio security, multiplied by each such security's market value, divided by the total market value of the fund. The stated term or maturity of a portfolio security is the period remaining until such security's stated maturity date, determined without taking into account the ability of a security to be called at the option of the issuer and by taking into account the ability to put the security at the option of the holder.

**Russell 1000<sup>®</sup> Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000<sup>®</sup> Index companies with lower price-to-book ratios and lower expected growth values. The R1000V is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Russell 1000<sup>®</sup> Value Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

**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.

**S&P Municipal Bond Index** is a broad, market value-weighted index that seeks to measure the performance of the U.S. municipal bond market. The index includes bonds of all quality—from "AAA" to non-rated, including defaulted bonds—from all sectors of the municipal bond market.

Indexes are unmanaged and cannot be invested in directly.

### Ratings and rating agencies

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