Federated Hermes CW Henderson Municipal SMAs

Federated Hermes

A focus on quality and wealth preservation

We view our municipal bond portfolios as the conservative working capital components of our investors' portfolios. With that in mind we focus on four core goals:

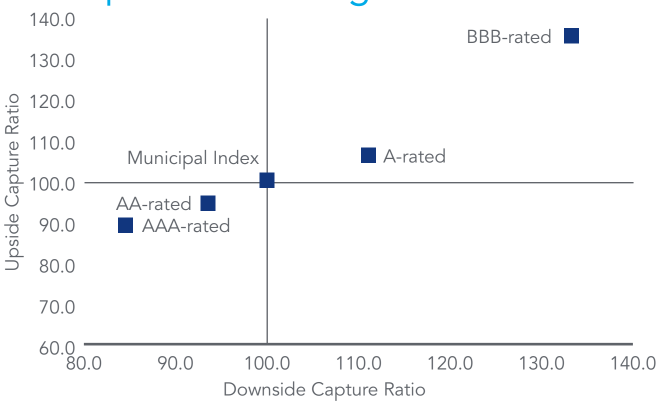
Wealth preservation via credit quality, conservative duration and high liquidity	Tax-free income generation with a barbell approach	Tax efficiency with proactive loss harvesting as rates rise	Active management focused on extracting value across the yield curve and issuers

Preserving wealth

We strive to maintain very high credit quality in client portfolios, primarily investing in bonds rated AAA and AA, and mitigate risk from interest rate volatility through our barbell approach to portfolio construction. This combination of high-quality and highly liquid bonds is consistent with our philosophy that municipal bonds are a conservative component of our investors' asset allocation.

Our credit selection process primarily focuses on general obligation securities issued by municipalities with desirable credit fundamentals and revenue backed bonds supported by well-established municipal enterprises that provide essential public services. By focusing on credits that exhibit stability throughout the economic cycle and have minimal risk of default, we seek to provide investors a portfolio with a consistent risk and return profile over time.

Upside and downside capture by municipal credit rating



This is for illustrative purposes only and is not representative of any specific investment.

Past performance is no guarantee of future results.

Source: Morningstar, Inc.; Benchmark "Municipal Index" shown is the Bloomberg Municipal Bond TR Index. Credit rating performance is the AAA, AA, A and BBB-rated components of the Bloomberg Municipal Bond Index. As of 7/1/2012 to 6/30/2022.

Generating tax-free income – barbell vs. ladder

In contrast to a laddered strategy that is generally equally weighted across the yield curve, a "barbell" approach often results in a structurally lower duration profile. And its combination of short and longer maturity bonds can provide the opportunity for a higher rate of return compared to a comparably rated ladder.

The barbell construction we employ consists of short duration components consisting of high coupon/short callable structures and ultra-short non-callable securities. High coupon/short call bonds can provide price stability but also provide the potential for enhanced returns if the bonds do not get called. Ultra-short, non-callable allocations take advantage of the strong demand for eligible securities by tax-exempt money market funds. The yield curve almost always rises sharply beyond thirteen months due to lessened demand beyond the money market sector. Our approach is to purchase bonds due in fifteen to sixteen months and then sell them when their maturities shorten to about a year. In effect we "ride down the yield curve." The short component of the barbell is typically 50% of portfolio assets when we have a neutral bias on the market.

The longer component of the barbell consists of high coupon/intermediate callable bonds and 10- to 15-year securities, with nine and ten year call features, that take advantage of a positively sloped yield curve to produce capital appreciation potential in declining rate environments.

We generally maintain a more conservative duration than our benchmark and peers and look to generate return and alpha not through credit or interest rate risk, but by taking advantage of market inefficiencies.

Minimizing taxes

In contrast with managers that are primarily reactive to client requests to harvest losses (typically toward year-end when they start to think about their upcoming income tax filings), we employ tax strategies throughout the year on an opportunistic basis.

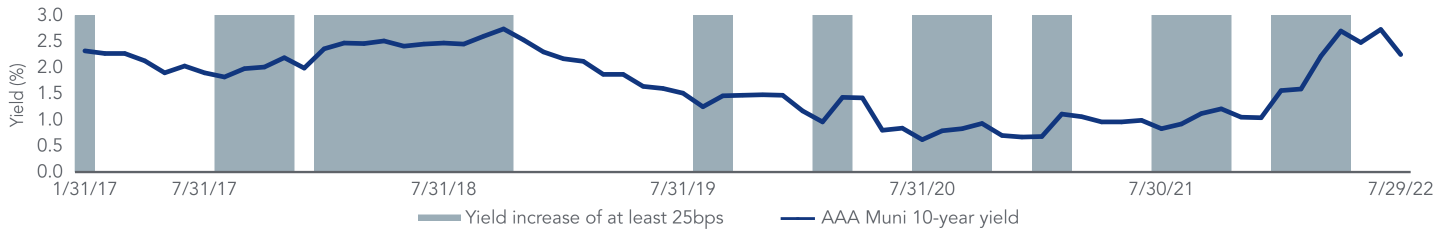
Basic bond math implies that a 25bp increase in rates could generate an unrealized loss of approximately 1% on an intermediate portfolio with a 4-year duration. These scenarios arise frequently in the municipal bond market, as illustrated in the chart below that depicts the AAA 10-Year Municipal Yield. We constantly monitor client portfolios in these market environments and evaluate opportunities for proactive tax loss harvesting.

By taking a proactive approach to loss harvesting, we can implement a strategy to maintain market exposure and income generation potential for our clients by crossing bonds with similar characteristics between accounts. This illustrative example shows a scenario where tax alpha (excess after-tax return minus excess pre-tax return) may be generated and portfolio characteristics are mostly unchanged.

Sold: 50,000 AAA 4% Davis County, UT due 6/1/2032, callable 6/1/2029 at 3.12% YTW (yield-to-worst) and harvested a $5,000 short term tax loss.

Bought: 50,000 AAA 4% Barbers Hill, TX PSF due 2/15/2033, callable 2/15/2030 at 3.18% YTW.

Rate volatility provides opportunity to harvest losses



Source: Bloomberg/JET/Federated Hermes; as of 7/31/2022

Active management

Our focus on the municipal market allows continuous monitoring of quality, sector and yield curve relationships. We seek to achieve enhanced returns through security and sector selection and by the implementation of an active trading program that capitalizes on changes across the yield curve and in changes in pricing between market sectors and between individual securities.

We believe that supply/demand imbalances can cause segments of the market to periodically become both overvalued and undervalued. We can take advantage of these situations by offering bonds at elevated prices to the brokerage community and on electronic trading platforms. We can then swap into other bonds that are trading at cheaper relative valuations. Our objective is to sell richly valued securities and buy relatively undervalued/attractively valued securities as long as it is tax effective to do so.

Tax implications are weighed before trades are executed and gains are typically only realized in instances where clients can offset gains or when portfolios are improved on an after-tax basis.

Key investment team

Matt Andrews
Senior Vice President,
Senior Portfolio Manager
Head of Investment Area,
Fixed Income Municipal SMA

Craig Henderson
Senior Vice President,
Senior Portfolio Manager
Head of Investment Area,
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David Beck
Senior Vice President
Senior Portfolio Manager
Group Head Trading

Monika Bhasin
Vice President
Senior Portfolio Manager
Senior Trader

Francis Michl
Vice President
Senior Portfolio Manager
Senior Trader

Effective 9/30/22, CW Henderson & Associates, Inc. was acquired by Federated Hermes, Inc. and renamed Federated Hermes CW Henderson, a division of Federated Investment Counseling. Additionally, the portfolio's name was changed from CW Henderson Intermediate to CW Henderson Intermediate Municipal SMA.

Bond credit ratings measure the risk that a security will default. 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 of BB and below are lower-rated securities; and credit ratings of CCC or below have high default risk. Bond prices are sensitive to changes in interest rates, and a rise in interest rates can cause a decline in their prices.

This should not be construed as a recommendation regarding tax information. Consult your tax professional for more information.

Separately managed account portfolios strategies are only offered to certain qualified investors.

Bloomberg Municipal Bond TR Index serves as a benchmark for the U.S. municipal bond market.

There is no guarantee that any specific investment approach will be successful.

The amount of public information available about municipal securities is generally less than that for corporate bonds. Special factors, such as legislative changes and local and business developments, may adversely affect the yield or value of municipal securities.

Credit ratings do not remove market risk.

Income from municipal securities may be subject to the federal alternative minimum tax and state and local taxes.

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

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

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.

Yield curve is a graph showing the comparative yields of securities in a particular class according to maturity. Securities on the long end of the yield curve have longer maturities.

These are hypothetical scenarios and do not assume price fluctuation which can result in principal loss.

Past performance is no guarantee of future results.