

MACRO & MARKETS

The commingled relationship between inflation and interest rates continued its stranglehold on markets in June and the second quarter overall, while emerging cracks in the economy elevated recession fears and weighed further on investor sentiment.

Inflation continued to intensify in the quarter with May CPI up 8.6% y/y, its largest increase in over 40 years. Sharp increases in food, energy and housing prices have cooled consumer demand expectations. The labor market meanwhile remains tight with job openings outnumbering job seekers by nearly 2 to 1, giving credence to the risk of a wage-price spiral that supports continued, stubbornly high inflation.

To combat these risks the Fed has taken an increasingly aggressive stance with rate hikes of 25bp in March, 50bp in May and 75bp in June, the largest increase since 1994. With the Fed signaling a willingness to remain aggressive even as demand signals falter, fears of a recession have grown, producing significant investor uncertainty and market volatility.

As a result, the S&P 500 generated a year-to-date return of -20% as of 6/30/22, its worst first-half decline in more than 50 years. Depreciation in market prices was more pronounced in the 2nd quarter with the S&P down -16.1%.

Small cap value stocks fared modestly better with the Russell 2000 Value index returning -15.3% for the quarter. Notably small value stocks continued their streak of outperformance over small growth stocks, with the Russell 2000 Value beating the Russell 2000 Growth for a 7th consecutive quarter.

Within the Russell 2000 Value the decline was broad-based across all sectors, but defensive sectors were relative outperformers as Consumer Staples and Utilities were down -3.6% and -3.9%, respectively.

FUND HIGHLIGHTS & POSITIONING

In the first half of 2022 the Federated Hermes Clover Small Value Fund (IS) generated a return of -15.4%, outperforming its Russell 2000 Value benchmark by 191 bps. This extends the Fund's record of excess return versus the benchmark, which as of 6/30/22 amounts to over 500bps for the trailing 1-year period and over 230bps annualized for the trailing 3-year period. Consistent excess performance highlights the historical benefits of a disciplined, actively managed strategy.

During the 2nd quarter the IS Class returned -14.3%, outperforming its Russell 2000 Value benchmark by 95bps and marking five straight quarters of outperformance during a period of rapidly changing economic conditions. Performance in the quarter was led by good stock selection in Health Care, while selection in Industrials and Utilities was a detractor.

Portfolio actions taken in June carried a decisively defensive tilt, reflective of our belief that we are entering the later stages of the economic cycle:

- We increased our weight in Consumer Staples with a new position in discount cigarette maker Vector Group, which carries pricing power and stands to benefit from a market exit by its primary competitor
- We decreased exposure to commodity cyclicals; in Energy we exited positions in E&Ps Ovintiv (OVV) and Antero Resources (AR) while in Materials we sold lithium compound maker Livent (LTHM)
- In Financials we added exposure to higher quality banks with attractive demographic tailwinds, with new positions in southeaster banks South State Corp (SSB) and Seacoast Banking Corp (SBCF) and an exit of Indiana-based Old National (ONB)
- In Healthcare we exited early-stage oncology drug maker Turning Point Therapeutics, which is being acquired by Bristol Myers Squibb

Average annual total returns %** (as of 6/30/22)

	Average annual total returns %** (as of 6/30/22)				Expense Ratio*	
	1-year	5-year	10-year	Since inception (2/28/96)	Before Waivers	After Waivers
IS	-11.24	5.48	8.75	9.86	1.23	0.89
A (NAV)	-11.46	5.21	8.48	9.72	1.48	1.14
A (MOP)	-16.33	4.03	7.87	9.49	1.48	1.14

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. Maximum Offering Price figures reflect the maximum sales charges of 5.5% for A Shares. See the prospectus for other fees and expenses that apply to a continued investment in the fund. Other classes of shares are available whose performance will vary due to different charges and expenses.

OUTLOOK

Looking forward we continue to approach the remainder of 2022 with caution. Elevated inflation will continue to erode consumer purchasing power and reduce demand for discretionary purchases. The aggressive stance warranted by the Fed to combat inflation will result in higher rates that further consumer health, increase the cost of capital for business, lower their return on investments, and act as a weight on valuation multiples as future cash flows are discounted at higher rates. We believe this increases the risk of economic uncertainty and market volatility.

Our approach to positioning in this environment is reflective of our caution. We favor high quality companies with strong balance sheets and resilient cash flows. We have shifted capital away from cyclical value profiles and concentrated them in defensive and relative value opportunities, while remaining highly selective in targeting deep value opportunities with idiosyncratic catalysts where deep dislocations have already occurred.

PORTFOLIO PROFILE							
<i>The Value Income team seeks to identify positive internal or external fundamental change with catalysts for value realization – a process that can be deployed throughout the economic cycle and across the value spectrum (to include deep, cyclical, and relative value)</i>							
<p>Mission Produce, Inc. (AVO)</p> <p>Mission Produce engages in the sourcing, production and distribution of avocados. In addition to selling fruit sourced from external growers, AVO is steadily building out internal company-owned orchards which carry profit margins as much as 4x higher than externally-sourced fruit.</p> 	<table border="0"> <tr> <td style="background-color: #003366; color: white; padding: 5px;">Enjoys favorable tailwinds from consumer preferences as growing interest in health and wellness drives avocado demand higher</td> <td style="background-color: #cccccc; text-align: center; padding: 5px;">External</td> </tr> <tr> <td style="background-color: #003366; color: white; padding: 5px;">Market consolidation has the potential to drive share gains for AVO, further reinforcing scale advantages in sourcing, logistics and capital deployment</td> <td style="background-color: #cccccc; text-align: center; padding: 5px;">External</td> </tr> <tr> <td style="background-color: #003366; color: white; padding: 5px;">Volume mix shift toward company-owned orchards carrying a 4x margin lift support long-term structural margin expansion</td> <td style="background-color: #cccccc; text-align: center; padding: 5px;">Internal</td> </tr> </table>	Enjoys favorable tailwinds from consumer preferences as growing interest in health and wellness drives avocado demand higher	External	Market consolidation has the potential to drive share gains for AVO, further reinforcing scale advantages in sourcing, logistics and capital deployment	External	Volume mix shift toward company-owned orchards carrying a 4x margin lift support long-term structural margin expansion	Internal
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**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 12/01/22 or the date of the fund's next effective prospectus.*

***Total return represents the change in value after reinvesting all income and capital gains. Total return would have been lower in the absence of certain fund expense waivers or reimbursements.*

Disclosures

Past performance is no guarantee of future results.

The performance information provided for the periods prior to August 28, 2009 is historical information of the Touchstone Diversified Small Cap Value Fund (the "Touchstone Small Fund"). The fund is the successor to the Touchstone Small Fund pursuant to a reorganization that took place on August 28, 2009.

Risk

Mutual funds are subject to risks and fluctuate in value. Diversification does not assure a profit nor protect against loss.

Current and future portfolio holdings are subject to risk.

Value stocks may lag growth stocks in performance, particularly in late stages of a market advance.

The fund may invest in small capitalization (or "smallcap") companies. Small-cap companies may have less liquid stock, a more volatile share price, unproven track records, a limited product or service base and limited access to capital. The above factors could make small-cap companies more likely to fail than larger companies and increase the volatility of the fund's portfolio, performance and price. Suitable securities of small-cap companies also can have limited availability and cause capacity constraints on investment strategies for funds that invest in them.

Holdings referenced within this newsletter and their percentages as of 6/30/22 are as follows: Vector Group (0.7%), South State Corp (1.3%), Seacoast Banking Corp (0.7%), Mission Produce (1.0%). The holdings percentages are based on net assets at the close of business on the dates above 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.

Russell 2000® Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

Russell 2000® Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000® Index companies with higher price-to-value ratios and higher forecasted growth values.

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.

All information is as of 6/30/2022 unless stated otherwise. Other classes of shares are available whose performance will vary due to different charges and expenses.

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 visit [FederatedInvestors.com](https://www.federatedinvestors.com). Please carefully read the summary prospectus or the prospectus before investing

Federated Securities Corp., Distributor 22-30191 (7/22)