

# Federated Hermes Corporate Bond Fund

9/30/22

## Fund facts

### Performance inception date

6/28/95

### Benchmark 1

Bloomberg US Credit Index

### Benchmark 2

75% Bloomberg US Credit Index/25% Bloomberg US Corporate High Yield 2% Issuer Capped Index

### Morningstar category

Corporate Bond

### Lipper classification

Corporate Debt Funds BBB-Rated

### Fund assets

\$981.5 million

### Ticker symbols

R6 Shares - FDBLX

Institutional Shares - FDBIX

A Shares - FDBAX

C Shares - FDBCX

F Shares - ISHIX

### Key investment team

Brian Ruffner

Bryan Dingle, CFA

Mark Durbiano, CFA

Steven Wagner

Christopher McGinley

### Yields (%)

30-day yield (R6) 4.84

30-day yield (IS) 4.82

30-day yield (A) 4.36

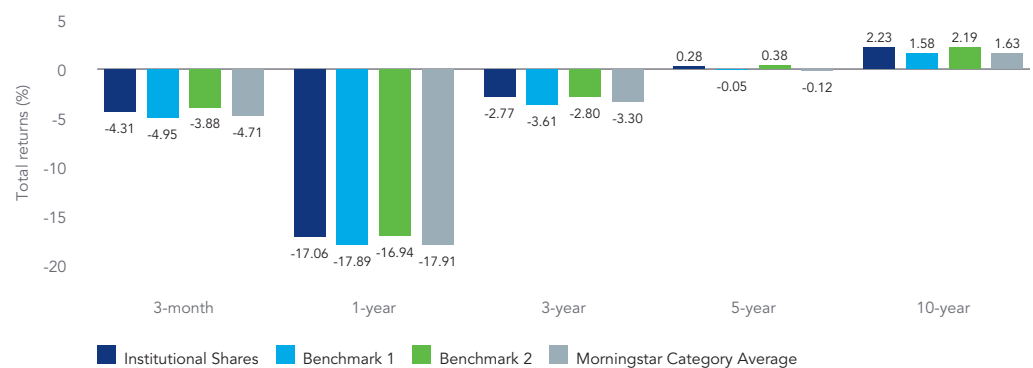
## Fund description

The fund seeks to provide a high level of current income and to preserve capital by investing in a diversified portfolio of fixed-income securities. It invests primarily in investment-grade corporate bonds, but also may invest up to 35% of its portfolio assets in lower-rated high-yield bonds.

## 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>R6 Shares</b>	-4.30	-17.07	-17.03	-2.75	0.29	2.15	5.03	0.64	0.59
<b>Institutional Shares</b>	-4.31	-17.10	-17.06	-2.77	0.28	2.23	5.09	0.73	0.61
<b>A Shares (NAV)</b>	-4.37	-17.25	-17.27	-3.01	0.05	2.00	4.97	0.98	0.86
<b>A Shares (MOP)</b>	-8.68	-20.99	-20.98	-4.50	-0.87	1.53	4.80	0.98	0.86
<b>Benchmark 1</b>	-4.95	-18.07	-17.89	-3.61	-0.05	1.58	-	-	-
<b>Benchmark 2</b>	-3.88	-17.22	-16.94	-2.80	0.38	2.19	-	-	-



## Calendar year total returns (%)

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
<b>Institutional Shares</b>	0.18	9.07	14.27	-2.84	7.05	8.44	-1.77	5.93	1.03	10.54
<b>Benchmark 1</b>	-1.08	9.35	13.80	-2.11	6.18	5.63	-0.77	7.53	-2.01	9.37
<b>Benchmark 2</b>	0.48	8.83	13.96	-2.08	6.51	8.43	-1.66	6.25	0.28	10.95
<b>Morningstar Category Average</b>	-0.76	9.24	13.03	-2.49	5.79	6.51	-1.39	6.93	-1.06	11.06

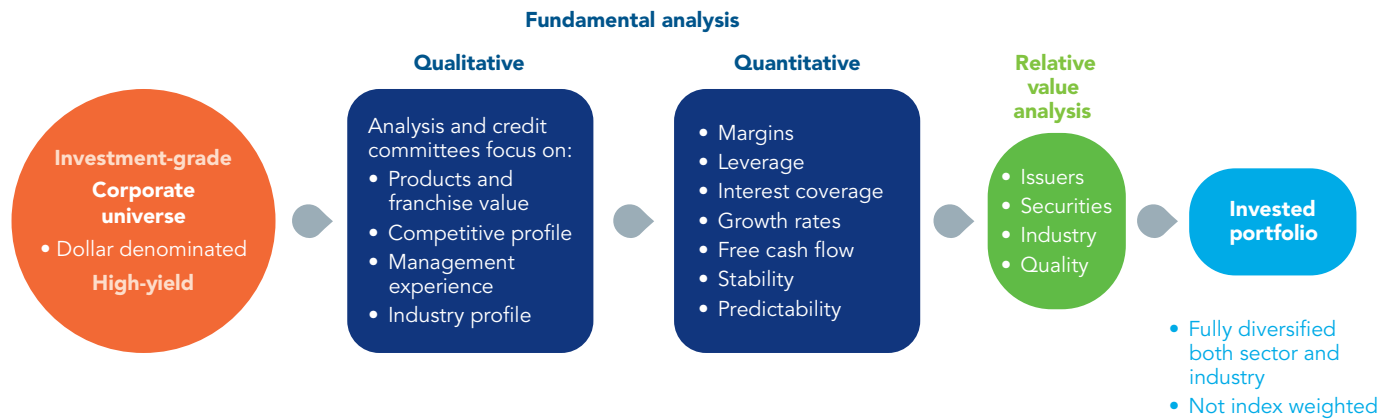
**Performance quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than what is stated. 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 charges of 4.5% 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 2/1/23 or the date of the fund's next effective prospectus.**



Not FDIC Insured • May Lose Value • No Bank Guarantee

## Investment process



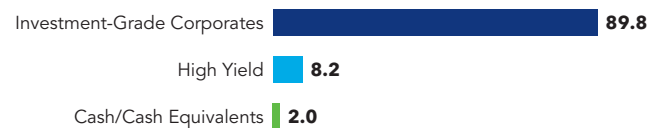
### Portfolio statistics

Weighted average effective maturity	10.0 yrs.
Weighted average effective duration	6.2 yrs.
Weighted average coupon	3.97%
Weighted average yield to maturity	5.82%
Weighted average bond price	\$87.62

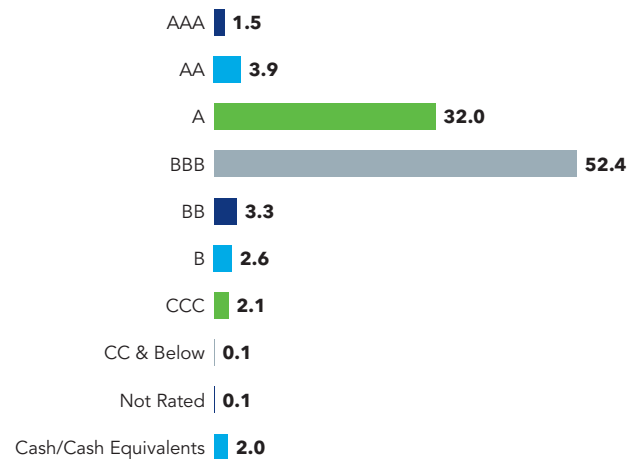
### Top holdings (%)

U.S. Treasury Note, 3.250% due 8/31/24	1.0
Bank of New York Mellon, 3.992% due 6/13/28	0.7
Goldman Sachs Group, Inc., 3.814% due 4/23/29	0.7
JPMorgan Chase & Co., 3.509% due 1/23/29	0.7
JPMorgan Chase & Co., 3.875% due 9/10/24	0.7
Morgan Stanley, 3.772% due 1/24/29	0.7
Wells Fargo & Co., 3.908% due 4/25/26	0.7
CCO Safari II LLC, 4.908% due 7/23/25	0.6
DH Europe Finance II S.a.r.l., 2.600% due 11/15/29	0.6
NextEra Energy Capital, 3.550% due 5/01/27	0.6
Total % of portfolio	7.0

### Sector weightings (%)



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



Quality breakdown does not apply to Equity or Cash/Cash Equivalents.

Portfolio composition is based on net assets at the close of business on 9/30/22 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

- Persistent inflation and higher-for-longer interest rate outlook
- 75 basis-point fed funds hike at both the July and September FOMC meetings
- Negative contribution from security selection

## Looking back

Optimism that inflation would cool as the U.S. economy entered fall had a rude awakening with the release of the August consumer price report in mid-September. Despite Federal Reserve (Fed) governors' speeches that the central bank intended to suffocate inflation, markets during the summer had persuaded themselves that the Fed would slow its rate hikes, and even pivot to rate cuts in early 2023, increasing the chance of a soft economic landing. Fed Chair Powell succinctly dispelled this notion in his late August Jackson Hole symposium speech, saying that the Fed had learned its lesson from the inflation of the 1970s and early 1980s. Not only would the Fed not pivot to rate cuts in early 2023, but the Fed likely would leave the fed funds rate high and unchanged for some time, until it was satisfied that inflation was truly under control.

The Fed's actions and speeches caused a sharp move higher in anticipated peak federal funds rate, from 3.49% at June 30, 2022 to 4.53% at Sept. 30, 2022, causing Treasury yields to reprice higher. Front-end Treasury yields rose more than 100 basis points in the quarter, pushing the year-to-date increase in the 2-year Treasury yield above 350 basis points. Against this backdrop, the Fed lowered its growth forecast through 2024, implying at least a mild recession is likely in early 2023, and raised its unemployment, inflation and fed funds projections.

Economic activity data held up well during the quarter. The labor market showed surprising strength as weekly jobless claims veered lower, ending the quarter just above the all-time low level reached in November 1968. Though the unemployment rate ticked up to 3.7% in August, new employment gains averaged more than 420,000 jobs in July and August, contributing to a rebound in consumer confidence. After peaking in mid-June, gasoline prices followed crude oil lower, relieving economic and political pressures. Manufacturing measures stabilized at lower levels, still in expansionary territory, but housing struggled under the weight of the highest mortgage rates in some 15 years and strong recent price gains that have reduced affordability. Inflation remains the key worry for the Fed; while annual headline inflation fell from 8.5% to 8.3%, core inflation excluding volatile food and energy increased from 5.9% to 6.3%, placing even more focus on future reports.

Treasury yields rose in the quarter, far more in the short maturities than long, flattening yield curves. The 10-year Treasury yield opened at 3.01%, fell to 2.58%, and then marched steadily higher to close the quarter at 3.83%. As they have in the first two quarters, all fixed-income sectors posted negative total returns in the quarter, according to Bloomberg data.

## Performance

Federated Hermes Corporate Bond Fund R6 Shares returned -4.30% at net asset value for the three months ended Sept. 30, 2022. That compares with the Bloomberg US Credit Index return of -4.95% and the Bloomberg US High Yield 2% Issuer Capped Index return of -0.64%. The Blended Benchmark, consisting of 25% of the Bloomberg US Credit Index and 75% of the Bloomberg US High Yield 2% Issuer Capped Index, returned -3.88%. The fund's total return for the period also reflected actual cash flows, transaction costs and other expenses not reflected in the return of the Blended Benchmark.

### Performance contributors

- Underweight position to the non-corporate component of the blended index (sovereign, supranational)
- Positive security selection in banking and consumer non-cyclical industries only partially offset the overall negative security selection
- Specific issuers held by the portfolio that outperformed the Blended Benchmark included Wells Fargo, JPMorgan Chase, Capital One Financial and Bausch Health Companies

### Performance detractors

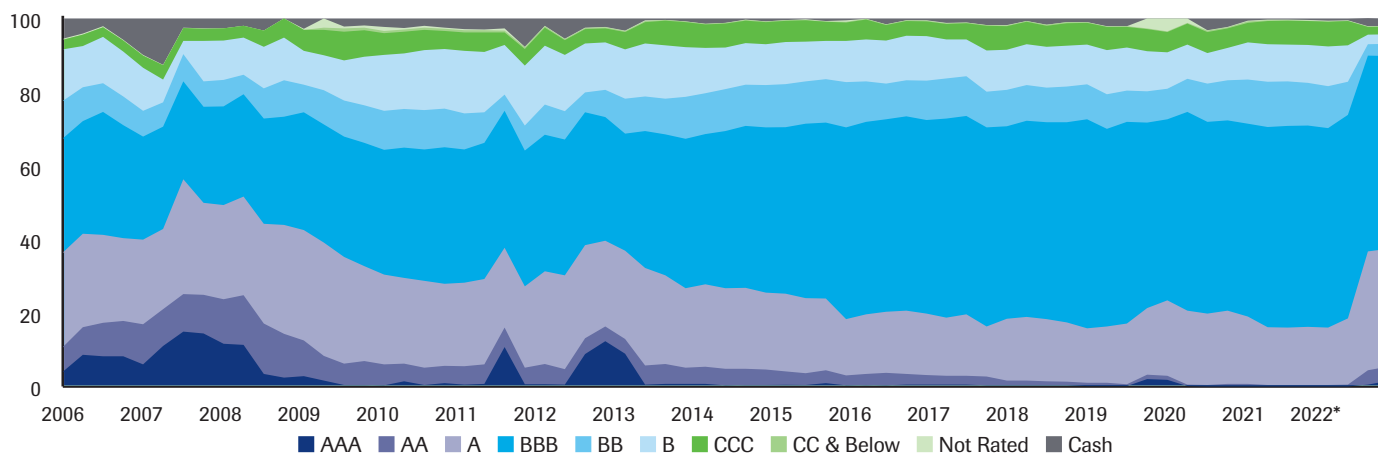
- Underweight position to the high-yield asset class
- Negative security selection, with noted weakness in communication, energy, transportation and capital goods industries
- Specific issuers held by the portfolio that underperformed the Blended Benchmark included AT&T, Apple, Deutsche Telekom, Danaher and Verizon

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## How we are positioned

We exited the quarter maintaining an underweight position to the high-yield asset class and targeting a neutral duration and yield-curve position relative to the benchmark. The portfolio remains committed to adjust the overall positioning in response to changes in valuation and credit quality. See disclosure section for important disclosures and definitions.

## Historical credit quality (%)<sup>1</sup>



\* As of 9/30/22

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## Risk statistics

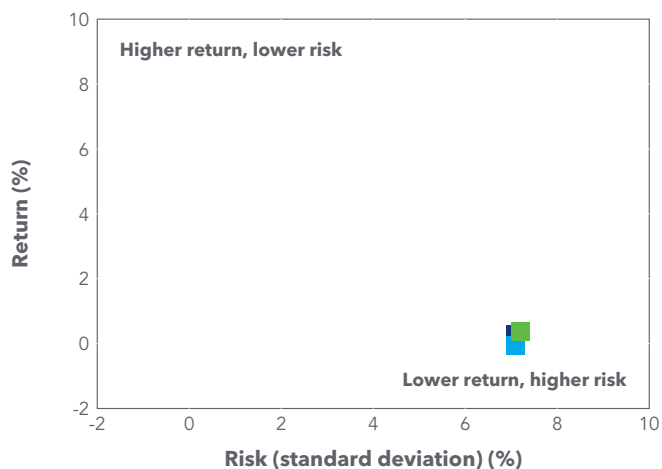
	3-year	5-year	7-year	10-year
<b>Standard deviation</b>	8.59	7.09	6.39	5.71
<b>Alpha</b>	0.92	0.31	0.69	0.67
<b>Beta</b>	1.01	0.98	0.98	0.97
<b>Up capture ratio</b>	99.23	93.97	100.11	98.04
<b>Down capture ratio</b>	92.73	90.48	90.70	87.67
<b>Sharpe ratio</b>	-0.39	-0.13	0.17	0.26

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. Bloomberg US Credit Index

**See disclosure section for important definitions.**

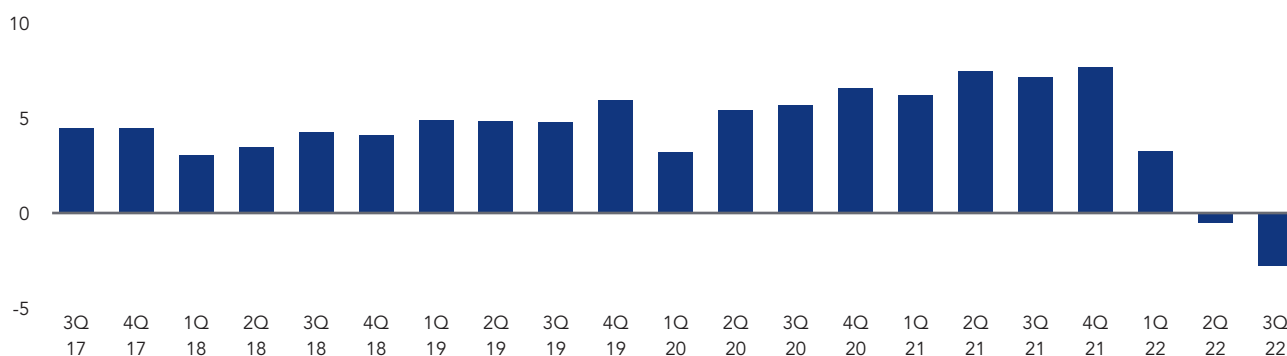
## 5-year risk/return



	Risk (%)	Return (%)
Federated Hermes Corporate Bond Fund (IS)	7.09	0.28
Bloomberg US Credit Index	7.10	-0.05
75% Bloomberg US Credit Index/25% Bloomberg US High Yield 2% Issuer Capped Index	7.21	0.38

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## 3-year rolling returns - IS (%)



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## Category rankings

### Morningstar Corporate Bond Category

		1-year	3-year	5-year	10-year
<b>R6 Shares</b>	Morningstar Category % Rank	19	22	28	-
	Morningstar Category Rank	27 of 211 funds	25 of 187 funds	33 of 167 funds	-
<b>IS Shares</b>	Morningstar Category % Rank	19	22	28	10
	Morningstar Category Rank	28 of 211 funds	27 of 187 funds	34 of 167 funds	11 of 95 funds
<b>A Shares</b>	Morningstar Category % Rank	23	33	43	23
	Morningstar Category Rank	33 of 211 funds	52 of 187 funds	62 of 167 funds	23 of 95 funds

### Lipper Corporate Debt Funds BBB-Rated

		1-year	3-year	5-year	10-year
<b>R6 Shares</b>	Lipper Classification % Rank	29	21	24	-
	Lipper Classification Rank	76 of 268 funds	51 of 245 funds	54 of 226 funds	-
<b>IS Shares</b>	Lipper Classification % Rank	29	22	25	9
	Lipper Classification Rank	77 of 268 funds	53 of 245 funds	55 of 226 funds	11 of 130 funds
<b>A Shares</b>	Lipper Classification % Rank	30	31	36	20
	Lipper Classification Rank	79 of 268 funds	76 of 245 funds	80 of 226 funds	26 of 130 funds

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

<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 4.77% for R6 Shares, 4.69% for Institutional Shares and 4.22% for A Shares.

The fund's Institutional Shares commenced operations on January 28, 2008. 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 applicable to the Institutional Shares since the Institutional Shares have 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 that may have occurred prior to commencement of operations of the Institutional Shares. See the prospectus for other fees and expenses that apply to a continued investment in the fund.

The fund's R6 Shares commenced operations on September 30, 2016. For the period prior to the commencement of operations of the R6 Shares, the performance information shown is for A Shares. The performance of the A Shares has not been adjusted to reflect the expenses applicable to the R6 since the R6 Shares have 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 the fund's expenses related to the A Shares that may have occurred during the period prior to the commencement of operations of the R6 Shares. See the prospectus for other fees and expenses that apply to a continued investment in the fund.

## Federated Hermes Corporate Bond Fund

### A word about risk

Mutual funds are subject to risks and fluctuate in value.

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.

Diversification does not assure a profit nor protect against loss.

### Definitions

**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.

**Sharpe ratio** is calculated by dividing a fund's annualized excess return by the fund's annualized standard deviation. The higher the Sharpe ratio, the better the fund's historical risk adjusted performance.

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

**Up capture ratio/down capture ratio** is a measure of how well a manager was able to replicate or improve on periods of positive benchmark returns and how badly the manager was affected by periods of negative benchmark returns. The up-market capture ratio is a measure of a manager's performance in up markets relative to the index during the same period. For example, a ratio value of 115 indicates that the manager has outperformed the market index by 15% in periods when the index has risen. The down-market capture ratio is the direct opposite of the up-market capture ratio, gauging performance of the manager relative to the index in down markets. A ratio value of 80 would indicate the manager had declined on 80% as much as the declining overall market, indicating relative outperformance.

**Weighted average bond price** is the weighted average of all individual bond prices within a portfolio.

**Weighted average coupon** is the weighted average interest payment of all individual debt securities within a portfolio.

**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 yield to maturity** is used to determine the rate of return an investor would receive if a long-term, interest-bearing investment, such as a bond, is held to its maturity date. It takes into account purchase price, redemption value, time to maturity, coupon yield and the time between interest payments.

**Bloomberg US Corporate High Yield 2% Issuer Capped Index** is an issuer-constrained version of the flagship US Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index wide on a pro rata basis. The index was created in 2002, with history backfilled to January 1, 1993.

**Bloomberg US Credit Index** is composed of all publicly issued, fixed-rate, nonconvertible, investment-grade corporate debt. Issues are rated at least Baa by Moody's Investors Service or BBB by Standard & Poor's, if unrated by Moody's. Collateralized Mortgage Obligations (CMOs) are not included. Total return comprises price appreciation/depreciation and income as a percentage of the original investment.

Indexes are unmanaged and cannot be invested in directly.

### Ratings and rating agencies

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