

# Federated Hermes Kaufmann Fund

12/31/22

## Fund facts

### Performance inception date

Institutional Shares 1/1/06  
A Shares 2/21/86

### Benchmark

Russell Midcap<sup>®</sup> Growth Index

### Morningstar category

Mid-Cap Growth

### Lipper classification

Multi-Cap Growth Funds

### Fund assets

\$4.8 billion

### Ticker symbols

Institutional Shares - KAUIX  
A Shares - KAUAX  
C Shares - KAUCX  
R Shares - KAUFX

### Key investment team

Hans Utsch  
John Ettinger, CFA  
Mark Bauknight  
Tom Brakel, M.D.  
Barbara Miller  
Steven Abrahamson  
Stephen DeNichilo, CFA  
Aditi Singhania

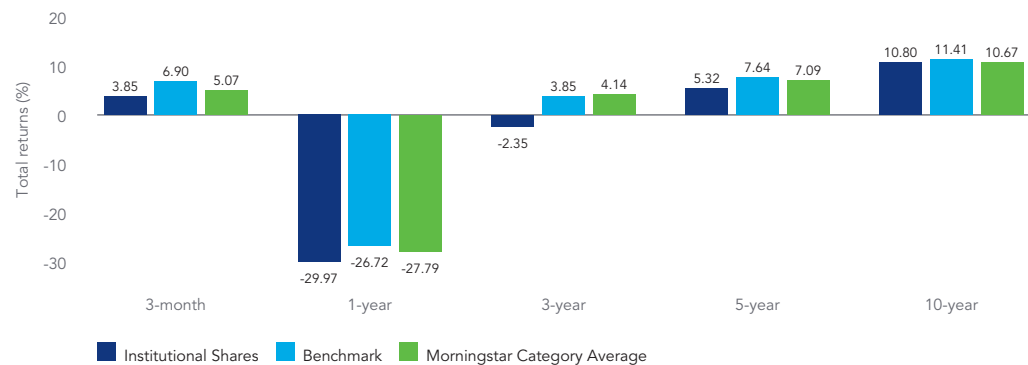
## Fund description

The fund seeks to provide capital appreciation by investing primarily in securities of small and mid-sized companies. Utilizing an intensive, bottom-up security selection process, the fund focuses on companies that exhibit positive growth characteristics.

## 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>	3.85	-29.97	-29.97	-2.35	5.32	10.80	–	1.54	1.51
<b>A Shares (NAV)</b>	3.79	-30.24	-30.24	-2.79	4.82	10.46	11.05	1.99	1.96
<b>A Shares (MOP)</b>	-1.92	-34.08	-34.08	-4.61	3.64	9.84	10.88	1.99	1.96
<b>Benchmark</b>	6.90	-26.72	-26.72	3.85	7.64	11.41	–	–	–



## Calendar year total returns (%)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
<b>Institutional Shares</b>	-29.97	3.02	29.07	33.88	3.94	28.52	3.07	5.96	9.14	40.50
<b>Benchmark</b>	-26.72	12.73	35.59	35.47	-4.75	25.27	7.33	-0.20	11.90	35.74
<b>Morningstar Category Average</b>	-27.79	13.05	39.26	32.52	-6.65	23.91	6.03	-0.95	7.00	34.93

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 1/1/24 or the date of the fund's next effective prospectus.

## Distinguishing characteristics

### Transparent and accountable process

- Capital efficiency and transparency are built into the compensation structure
- Bonus pool is allocated according to individual's contribution to results
- Incentivized to optimize capital

### Tenured team, differentiated portfolio

Team follows same 35-year philosophy and process used since inception of the Kaufmann strategy

- Distinguished professionals with specialized industry ties; organized for full accountability
- Continuity of team allows for constructive problem solving
- Seeking a differentiated, large-cap portfolio

### Extensive research, long-term results

Independent, proprietary research focuses on:

- Exceptional business models
- Positive inflections of business momentum
- Clear pathway to free cash flow growth

Past performance is no guarantee of future results.

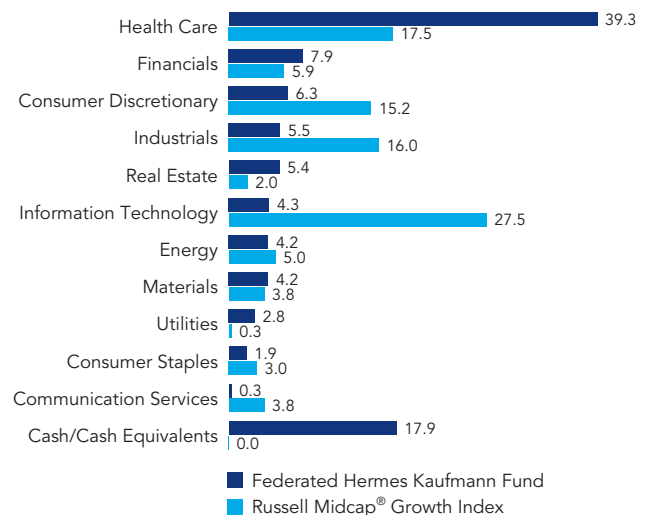
## Portfolio statistics

Weighted median P/E (LTM)	34.6x
Weighted median P/E (NTM)	27.0x
Weighted median market cap	\$20.5 b
Number of securities	154
Annual portfolio turnover	28.22%

## Top holdings (%)

Argenx SE	5.6
Danaher Corp.	2.7
U.S. Treasury Note 4.125% 11/15/2032	2.6
Dexcom, Inc.	2.5
Rhythm Pharmaceuticals, Inc.	2.3
CoStar Group Inc	2.2
New Fortress Energy, Inc.	2.1
Blue Owl Capital - PIPE	1.7
Lilly Eli & Company	1.7
Veeva Systems Inc.	1.7
Total % of portfolio	25.1

## Sector weightings (%)



Totals may not add up to 100% due to rounding.

The index position were small hedges we invested in given macro uncertainty.

Portfolio composition is based on net assets at the close of business on 12/31/22 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

- Global equity markets bounced back from lows as investors hoped inflation has peaked
- Growth stocks underperformed value stocks during the quarter
- Stock selection was the primary factor for the relative underperformance
- The Health Care sector negatively contributed to the fund's performance on a relative basis

## Looking back

During the fourth quarter of 2022, the U.S. economy and most significant westernized economies saw inflation continue to be the primary headwind to economic growth. Inflationary pressures persisted again due to the impact from record monetary and fiscal stimulus as well as the Eastern European conflict along with regulatory restrictions causing supply disruptions. This inflationary pressure has caused most global central banks to pursue aggressive monetary tightening policies in 2022. This pressure seemed to ease a bit as some economic statistics showed potential signs of inflation peaking and heading lower. This led to global equities rebounding in the fourth quarter of 2022. The U.S. indexes that were up the most during the quarter were led by mid-cap stocks, represented by the Russell Midcap Index, which returned 9.18%, followed by the S&P 500 Index, which returned 7.55%, followed by large-cap stocks, represented by the Russell 1000 Index, which returned 7.23%, followed by small cap stocks, represented by the Russell 2000 Index, which returned 6.2%. The technology- and growth-focused Nasdaq Index was down for the quarter, returning -0.78%. Mid-cap growth stocks underperformed mid-cap value during the quarter.

During the third quarter, the portfolio team added new equity positions of the following select new holdings: The Williams Companies Inc (new), Acrivon Therapeutics Inc (new IPO), Apollo Endosurgery Inc (new), Chinook Therapeutics Inc (new), Denali Therapeutics Inc (new), EDAP TMS SA (new), Novo Nordisk A/S (new), Prometheus Biosciences Inc (new), Sana Biotechnology Inc (new), Deere & Co (new), Quanta Services Inc (new), Westinghouse Air Brake Technologies Corporation (new), CrowdStrike Holdings Inc (new), Okta Inc (new), Palo Alto Networks Inc (new), ShotSpotter Inc (new), American Electric Power (new) and Eli Lilly & Company.

Also during the quarter, the portfolio subtracted or reduced the following equity positions in pursuit of better opportunities: Corcept Therapeutics, Zoom Info Technologies, KKR & Co, Advanced Micro Devices, Zai Lab Ltd (exited) and Westlake Corp (excited).

Capital markets activities during the quarter: The fund participated in one IPO in the quarter as the IPO market remained very quiet during the quarter after a record year in 2021: Acrivon Therapeutics Inc.

The fund participated in three secondary offerings during the quarter: Amylyx Pharmaceuticals, Denali Therapeutics Inc and Prometheus Biosciences.

## Performance

Federated Hermes Kaufmann Fund Institutional Shares returned 3.85% at NAV for the three months ended December 30, 2022. That compares with its benchmark, the Russell Midcap Growth Index, which returned 6.90% during the same period.

### Performance contributors

- Stocks that made a positive contribution to performance were: DexCom Inc., Apollo Global Management, Rhythm Pharmaceuticals Inc., BlackRock Inc. and Blue Owl Capital

### Performance detractors

- Stocks that detracted from performance included: Corcept Therapeutics Inc., Intellia Therapeutics, Verve Therapeutics Inc., Amazon.com Inc., and Seres Therapeutics

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## How we are positioned

As the U.S. economy enters 2023, many headwinds persist, from global monetary tightening to inflation to geopolitical uncertainty. These questions, among others, are likely to endure throughout the year, which could cause market uncertainty. One indicator of investor caution would be the fourth quarter in a row of very little IPO activity since the peak in 2021. After a record-breaking year in 2021, the 2022 U.S. IPO issuance remains quiet, with 71 IPOs priced in 2022 through December 30 and only raising \$7.7 billion according to Renaissance Capital. Despite the macro uncertainties, the Kaufmann team continues to be focused on finding and investing in companies that have little dependence on the economy, good or bad, to generate significant sales and earnings growth.

This quarter, the fund had approximately 58% of the portfolio invested in four sectors: Real Estate, Health Care, Consumer Discretionary and Financials. The sector weightings of the portfolio are a byproduct of our bottom-up stock selection strategy with a team of sector-specialist portfolio managers. These sectors also have historically provided good opportunities for bottom-up growth investors. We seek to find companies that have company-specific catalysts for growth rather than develop macro themes to construct sector weightings. The strategy's consistent growth bias has allowed the portfolio to produce the following statistics: average sales growth last 12 months of 34%, operating margins of 26% and median earnings growth for the last year of 8%. These figures compare to those of the Russell Midcap Growth Index as follows: average sales growth last 12 months of 31%, median operating margins of 21% and median earnings growth of 9%.

See disclosure section for important disclosures and definitions.

## Risk statistics

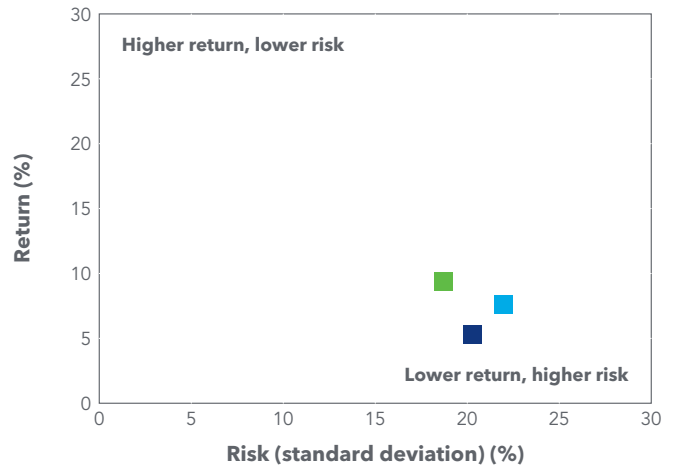
	3-year	5-year	7-year	10-year
<b>Standard deviation</b>	21.97	20.30	18.55	17.02
<b>Alpha</b>	-5.96	-1.56	-0.97	0.28
<b>Beta</b>	0.86	0.88	0.91	0.93
<b>Correlation</b>	0.97	0.96	0.94	0.94
<b>R<sup>2</sup></b>	93.88	91.58	89.10	88.12

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. Russell Midcap<sup>®</sup> Growth Index

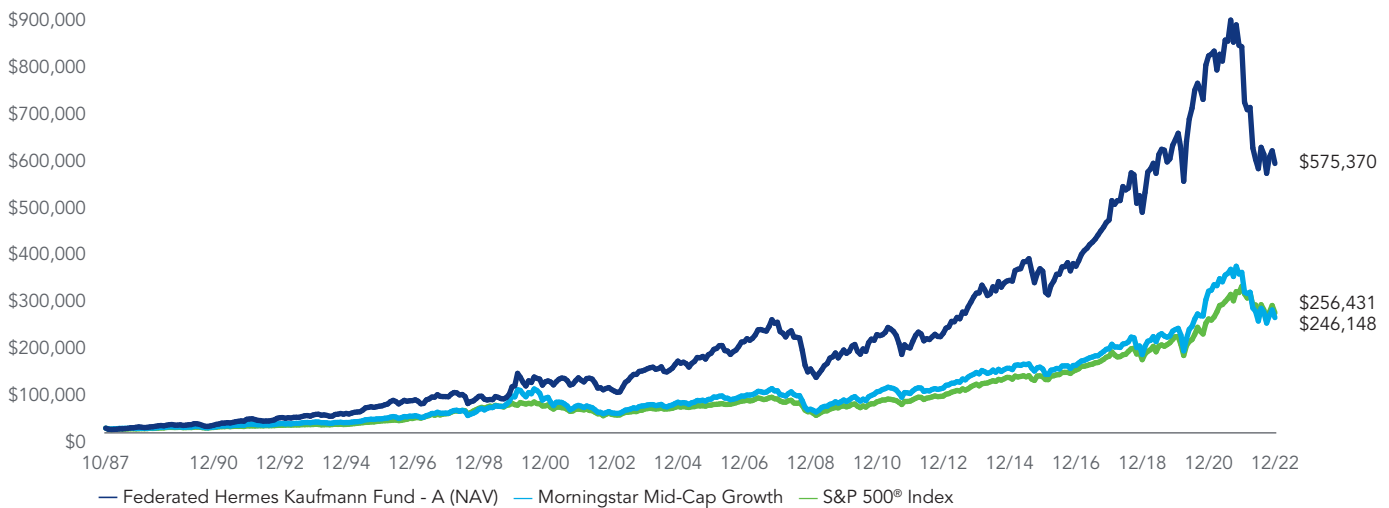
**See disclosure section for important definitions.**

## 5-year risk/return



	Risk (%)	Return (%)
■ Federated Hermes Kaufmann Fund (IS)	20.30	5.32
■ Russell Midcap <sup>®</sup> Growth Index	21.95	7.64
■ S&P 500 <sup>®</sup> Index	18.69	9.42

## \$10,000 Investment since stock market crash of 1987

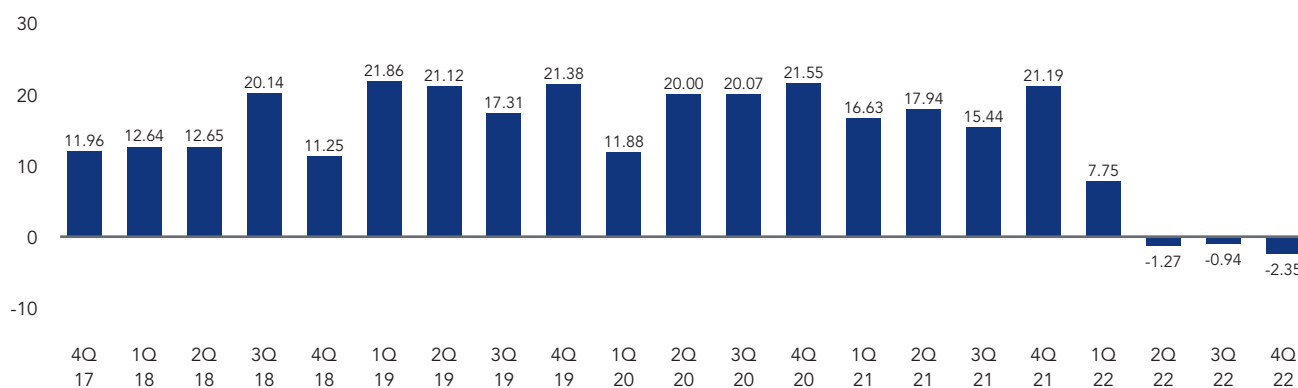


Source: Morningstar, Inc.

10/31/87 - 12/31/22

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



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## Category rankings

Morningstar Mid-Cap Growth Category		1-year	3-year	5-year	10-year
<b>IS Shares</b>	Morningstar Category % Rank	67	93	78	-
	Morningstar Category Rank	352 of 586 funds	493 of 534 funds	383 of 499 funds	-
<b>A Shares</b>	Morningstar Category % Rank	68	94	82	54
	Morningstar Category Rank	357 of 586 funds	500 of 534 funds	409 of 499 funds	209 of 389 funds

Lipper Multi-Cap Growth Funds		1-year	3-year	5-year	10-year
<b>IS Shares</b>	Lipper Classification % Rank	45	87	81	-
	Lipper Classification Rank	195 of 433 funds	344 of 396 funds	289 of 360 funds	-
<b>A Shares</b>	Lipper Classification % Rank	48	89	84	66
	Lipper Classification Rank	204 of 433 funds	350 of 396 funds	301 of 360 funds	170 of 258 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 Kaufmann Fund

**Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. To obtain a summary prospectus or a prospectus containing this and other information, contact us or visit [FederatedInvestors.com](http://FederatedInvestors.com). Please carefully read the summary prospectus or the prospectus before investing.**

The fund is the successor to the Kaufmann Fund, Inc. (Kaufmann Fund) pursuant to a reorganization that took place on April 23, 2001. Prior to that date, the fund had no investment operations. Accordingly, for periods prior to that date, the performance information is that of the Kaufmann Fund, adjusted to reflect the maximum sales charge applicable to the fund's A Shares.

The fund's Institutional Shares commenced operations on December 29, 2016. For the period prior to the commencement of operations of the Institutional Shares, the performance information shown is for R Shares adjusted to remove any voluntary waiver of fund expenses related to the fund's R Shares that occurred during the period prior to the commencement of the fund's Institutional Shares.

### A word about risk

Mutual funds are subject to risks and fluctuate in value.

Small company stocks may be less liquid and subject to greater price volatility than large capitalization stocks.

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

Investing in IPOs involves special risks such as limited liquidity and increased volatility.

### 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.

**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 median P/E (LTM—latest 12 months)** is a ratio comparing share price to earnings per share using data from the previous 12 months.

**Weighted median P/E (NTM—next 12 months)** is a ratio comparing share price to earnings-per-share using estimated data for the next 12 months.

**Weighted median market cap** is the calculation representing the median market capitalization of the stocks in the portfolio, weighted by the amount of each stock.

**Russell 1000<sup>®</sup> Index** measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000<sup>®</sup> Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000<sup>®</sup> represents approximately 92% of the U.S. market. The

Russell 1000<sup>®</sup> Index is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to ensure new and growing equities are reflected.

**Russell 2000<sup>®</sup> Index** measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000<sup>®</sup> Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000<sup>®</sup> Index is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

**Russell Midcap<sup>®</sup> Growth Index** measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap<sup>®</sup> Index companies with higher price-to-book ratios and higher forecasted growth values. It is constructed to provide a comprehensive and unbiased barometer of the mid-cap growth market. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap growth market.

**Russell Midcap<sup>®</sup> Index** measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap<sup>®</sup> Index is a subset of the Russell 1000<sup>®</sup> Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap<sup>®</sup> Index represents approximately 27% of the total market capitalization of the Russell 1000 companies.

**S&P 500<sup>®</sup> 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.

Indexes are unmanaged and cannot be invested in directly.

### Ratings and rating agencies

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