

# Federated Hermes Muni and Stock Advantage Fund

9/30/22

## 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

Michael Jura

### Yields (%)

30-day yield (IS) 2.40

30-day yield (A) 2.02

12-month yield (IS) 2.34

12-month yield (A) 2.07

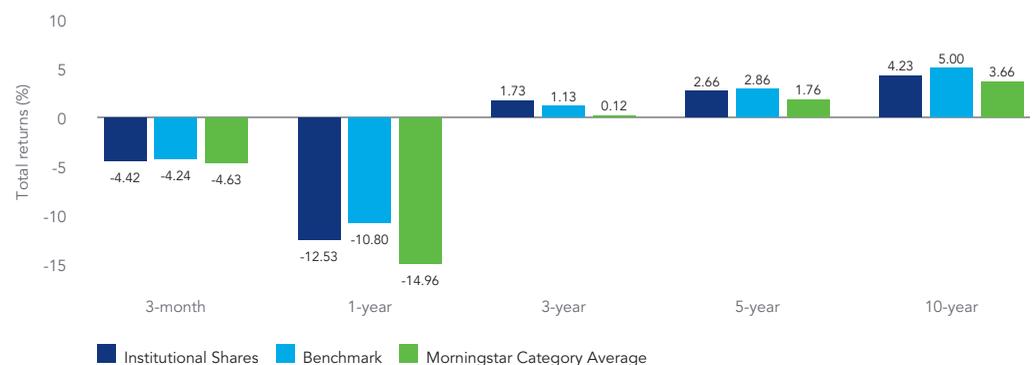
## Fund description

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>	-4.42	-15.39	-12.53	1.73	2.66	4.23	4.87	0.82	0.75
<b>A Shares (NAV)</b>	-4.40	-15.48	-12.75	1.50	2.42	3.98	4.91	1.07	1.00
<b>A Shares (MOP)</b>	-9.69	-20.12	-17.54	-0.39	1.27	3.39	4.60	1.07	1.00
<b>Benchmark</b>	-4.24	-13.91	-10.80	1.13	2.86	5.00	-	-	-



## 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>	-4.63	-13.63	1.92	3.66	4.44	-	-	-	-	-
<b>A</b>	-4.59	-13.76	1.72	3.44	4.50	-9.86	-18.50	0.57	2.85	4.19
<b>Return after taxes on distributions and sale of fund shares</b>										
<b>IS</b>	-2.61	-6.73	2.29	3.59	4.31	-	-	-	-	-
<b>A</b>	-2.60	-6.88	2.08	3.37	4.34	-5.73	-9.75	1.18	2.90	4.06

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 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 1/1/23 or the date of the fund's next effective prospectus.

Not FDIC Insured • May Lose Value • No Bank Guarantee

**Federated  
Hermes**

## 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	11.8 yrs.
Weighted average stated maturity	18.2 yrs.
Weighted average effective duration	8.5 yrs.
Weighted average modified duration	7.3 yrs.
Weighted average market cap	\$334.9 b

## Top holdings (%)

### Equity portfolio

Apple Inc.	1.3
MICROSOFT CORP	1.3
Johnson & Johnson	1.2
Alphabet Inc.	1.0
Bank of America Corporation	0.9

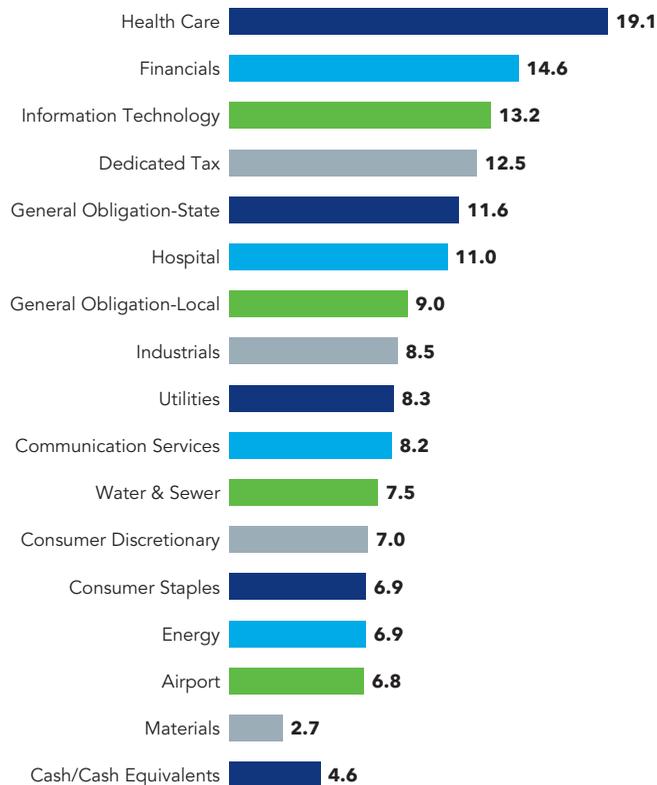
### Fixed-Income portfolio

San Diego County, CA Regional Airport Authority, Subordinate Airport Revenue Bonds (Series 2021A), 5.000%, 07/01/2056	1.1
Puerto Rico Sales Tax Financing Corp., Restructured Sales Tax Bonds (Series 2019A), 5.000%, 07/01/2058	0.8
Montgomery County, MD, UT GO Consolidated Public Improvement Bonds (2016A), 4.000%, 12/01/2030	0.7
Minnesota State, Various Purpose Refunding UT GO Bonds (Series 2016D), 5.000%, 8/1/2025	0.6
New York City, NY, UT GO Bonds (Series 2018B-1), 5.000%, 10/1/2039	0.6

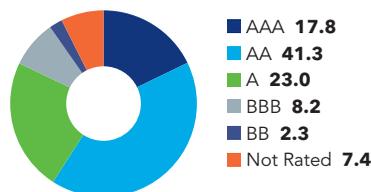
## Portfolio composition (%)



## Top sector weightings (%) - Equity



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



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

- The broad equity market as measured by the S&P 500 returned -4.88% for the quarter
- Growth outperformed value and small caps outperformed their large and mid-cap counterparts
- The equity portion of the fund outperformed its benchmark (Russell 1000 Value)

## Looking back

The equity markets declined again in the third quarter, returning -4.88% as measured by the S&P 500, with the exception being small growth, which was slightly positive. The quarter started with an equity rally on better-than-expected corporate earnings, signs inflation had peaked and a perception the Fed may pivot to a less-aggressive rate-policy stance. This optimism proved to be another “bear-market rally” as Chair Powell’s comments at the August Jackson Hole Symposium made clear the Fed’s hawkishness would continue and that the U.S. economy likely will “feel some pain.” Inflation continued to be stubborn, and the Fed’s 75 basis-point increase in September—matching hikes at June and July policy meetings—as well as its commentary and dot plot, signaled further hikes were likely, sending markets to year-to-date lows as the quarter ended. Geopolitical concerns over the Russia-Ukraine conflict, the U.K.’s announcement of a stimulus program and a potential European recession added to negative sentiment. The Fed so far this year has raised its policy rate at the fastest pace since the Volcker years, starting at zero-bound in March to 3-3.25% at period end, with projections suggesting the range could end the year at 4-4.25%. The Fed in September also discontinued quantitative easing and said it will seek to reduce its holdings of U.S. Treasury and mortgage-backed securities (MBS) by approximately \$1 trillion annually.

Treasury and municipal bond yields surged higher during the quarter on the Fed’s actions and persistent inflation. Investors reacted to continued losses in bond markets by redeeming historically large sums from municipal bond funds. Signs of slowing economic momentum and large losses in many financial assets increased the risk of recession in the next 12-24 months, prompting some underperformance in mid and lower quality bonds late in the quarter. The AAA-rated Bloomberg Evaluation 2-year, 10-year and 30-year municipal yields increased 114, 51 and 69 basis points, respectively. Yields on 2-year, 10-year and 30-year Treasury securities increased 132, 82 and 59 basis points, respectively.

In the third quarter, large value stocks underperformed large growth stocks, as well as other market caps and styles, with the Russell 1000 Value returning -5.62% and the Russell 1000 Growth returning -3.60%. Cyclical stocks generally outperformed defensive stocks, led by consumer discretionary and energy. Fixed income as measured by Bloomberg US Aggregate Bond Index returned -4.75%, marginally outperforming the S&P 500.

The S&P Municipal Bond Index posted a return of -3.40% for the quarter. The 3-year component of the index returned -1.97%, the 10-year component returned -2.75% and the portion of the index maturing in 22 years and longer returned -6.09%. The S&P Intermediate Municipal Bond Index returned -2.85%. The S&P Municipal Bond A-Rated Index returned -3.15%, the BBB Rated Index returned -3.79% and the S&P High Yield Municipal Bond Index returned -4.39%.

## Performance

Federated Hermes Muni & Stock Advantage Fund Institutional Shares returned -4.42% for the quarter, slightly underperforming the -4.24% 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 underperformed the S&P Municipal Bond index. By design, the fund has a heavier concentration in mid to lower quality credit and has a longer duration relative to the S&P Municipal Bond Index which contributed to the underperformance.

### Performance contributors

- No allocation to Real Estate (per product design), an allocation to Cash and an underweight in Materials
- Stock selection in Information Technology, Financials and Consumer Discretionary
- Underweight to higher quality AAA and AA rated securities and overweight to A rated securities

### Performance detractors

- Overweight in Information Technology and underweights in Financials and Energy
- Stock selection in Health Care, Communication Services and Industrials
- Duration, Security Selection and Sector Allocation primarily driven by an overweight to Tobacco and an underweight to Housing

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## How we are positioned

As we enter the fourth quarter, we are cognizant of the likelihood of continued market volatility as the Fed works to bring inflation under control. Our base case for the U.S. economy is a rocky landing. Households are feeling the pinch of inflation and higher rates and have adjusted their behavior accordingly. This is beginning to show in company earnings and guidance. We expect the consumer to come under further pressure, making us more selective on stocks that are cyclical in nature and reliant on discretionary purchases. Uncertainty over a potential eurozone/U.K. recession could contribute to further volatility, and we are somewhat optimistic about opportunities in China as it reopens from rolling Covid closures.

We have a defensive tilt to the equity portfolio and have built up some dry powder for use if opportunities present themselves. We are favoring higher quality defensive names with strong balance sheets and low volatility in their income stream, and have conviction in Health Care and Consumer Staples as we expect such companies to hold up well. We also are focused on companies with the pricing power to pass along increased costs and maintain and/or grow margins. We also continue to look for strong quality companies that have been unduly punished during the bear market.

Bond strategy integrates views on both interest rate and credit cycles. The bond portfolio managers 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. Bond portfolio managers strive to balance the fund’s primary objective of tax-advantaged income and secondary objective of total return. 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

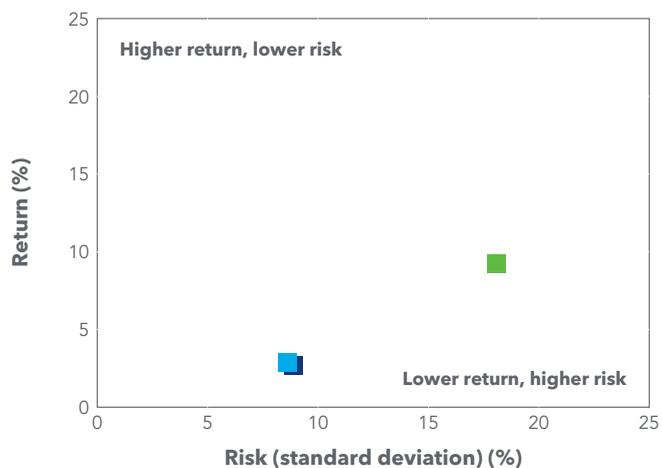
	3-year	5-year	7-year	10-year
<b>Standard deviation</b>	10.33	8.91	7.81	7.10
<b>Alpha</b>	-2.88	-2.54	-1.65	-1.50
<b>Beta</b>	0.49	0.47	0.46	0.45
<b>Correlation</b>	0.95	0.95	0.94	0.92
<b>R<sup>2</sup></b>	90.07	90.54	88.61	84.01

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. S&P 500 Index

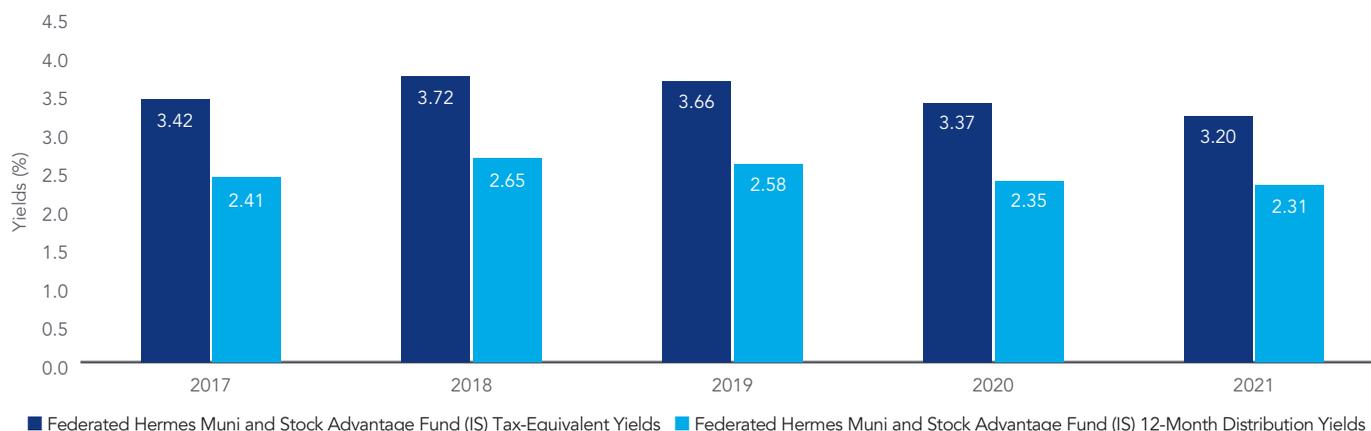
See disclosure section for important definitions.

## 5-year risk/return



	Risk (%)	Return (%)
Federated Hermes Muni and Stock Advantage Fund (IS)	8.91	2.66
40% Russell 1000 <sup>®</sup> Value Index/60% S&P Municipal Bond Index	8.62	2.86
S&P 500 Index	18.07	9.23

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



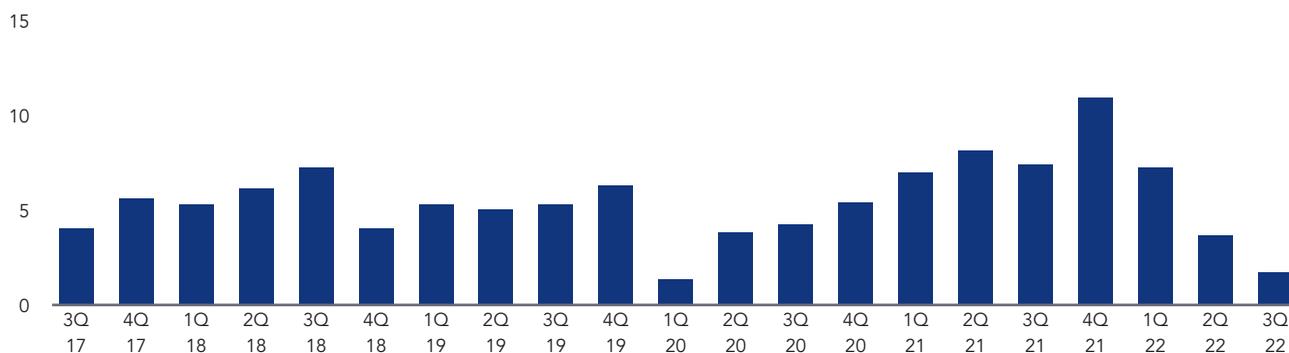
The calculation assumes a 40.8% tax rate (for 2021-2018) and 43.4% (for 2017) for the muni portion; the equity portion was not tax adjusted. The tax equivalent yield assumes the highest marginal tax rate.

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	18	11	19	23
	Morningstar Category Rank	98 of 458 funds	47 of 424 funds	73 of 393 funds	73 of 287 funds
<b>A Shares</b>	Morningstar Category % Rank	19	16	27	34
	Morningstar Category Rank	103 of 458 funds	67 of 424 funds	106 of 393 funds	106 of 287 funds

### Lipper Mixed-Asset Target Allocation Conservative Funds

		1-year	3-year	5-year	10-year
<b>IS Shares</b>	Lipper Classification % Rank	15	5	6	8
	Lipper Classification Rank	45 of 319 funds	13 of 296 funds	15 of 281 funds	15 of 208 funds
<b>A Shares</b>	Lipper Classification % Rank	17	7	11	12
	Lipper Classification Rank	53 of 319 funds	18 of 296 funds	31 of 281 funds	24 of 208 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 1.94% for A Shares and 2.32% 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 most distributions will be subject to applicable 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.

## Federated Hermes Muni and Stock Advantage Fund

### 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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