

# Federated Hermes Muni and Stock Advantage Fund

6/30/22

## 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

\$1.5 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) 1.89

30-day yield (A) 1.55

12-month yield (IS) 2.49

12-month yield (A) 2.22

## 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> | -7.66   | -11.48 | -9.09  | 3.67   | 4.24   | 5.03    | 5.19            | 0.82           | 0.75          |
| <b>A Shares (NAV)</b>       | -7.79   | -11.59 | -9.32  | 3.41   | 3.98   | 4.77    | 5.23            | 1.07           | 1.00          |
| <b>A Shares (MOP)</b>       | -12.84  | -16.44 | -14.29 | 1.48   | 2.81   | 4.18    | 4.92            | 1.07           | 1.00          |
| <b>Benchmark</b>            | -6.74   | -10.10 | -7.26  | 3.12   | 4.13   | 5.87    | -               | -              | -             |



## 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>  | -7.85              | -10.09 | 3.52   | 4.47    | 4.76            | -                      | -      | -      | -       | -               |
| <b>A</b>   | -7.95              | -10.26 | 3.29   | 4.24    | 4.82            | -13.00                 | -15.19 | 2.13   | 3.65    | 4.50            |
| <b>Return after taxes on distributions and sale of fund shares</b> |                    |        |        |         |                 |                        |        |        |         |                 |
| <b>IS</b>  | -4.53              | -4.51  | 3.51   | 4.25    | 4.57            | -                      | -      | -      | -       | -               |
| <b>A</b>   | -4.61              | -4.68  | 3.28   | 4.02    | 4.60            | -7.60                  | -7.67  | 2.38   | 3.52    | 4.32            |

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.



## 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 | 9.7 yrs.  |
| Weighted average stated maturity    | 16.7 yrs. |
| Weighted average effective duration | 7.9 yrs.  |
| Weighted average modified duration  | 6.4 yrs.  |
| Weighted average market cap         | \$352.5 b |

## Top holdings (%)

### Equity portfolio

|                         |     |
|-------------------------|-----|
| Microsoft Corporation   | 1.4 |
| Alphabet Inc.           | 1.3 |
| Johnson & Johnson       | 1.3 |
| Apple Inc.              | 1.2 |
| Exxon Mobil Corporation | 1.0 |

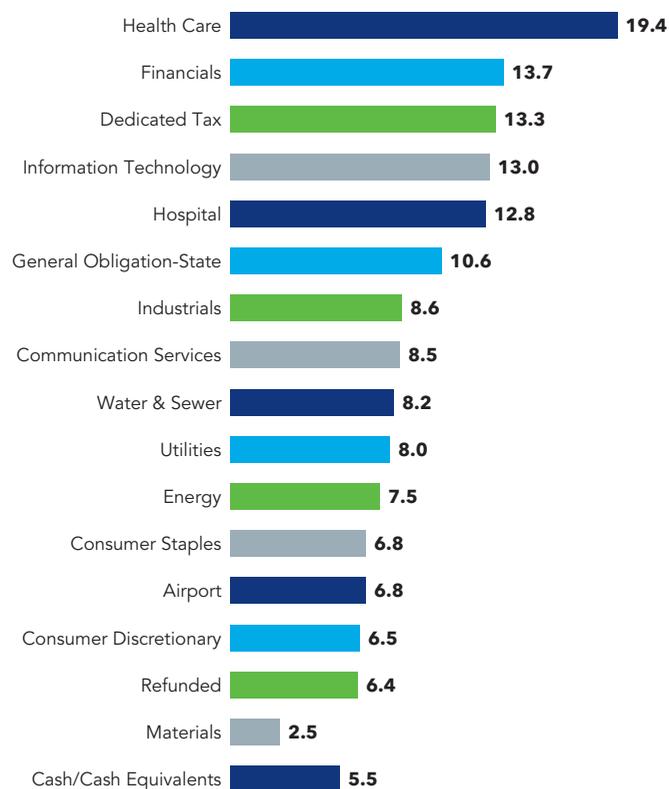
### Fixed-Income portfolio

|   |     |
|---|-----|
| San Diego County, CA Regional Airport Authority, Subordinate Airport Revenue Bonds (Series 2021A), 5.000%, 07/01/2056                             | 1.1 |
| Las Vegas Valley, NV Water District, LT GO Water Refunding Bonds Additionally Secured by SNWA Pledged Revenues (Series 2022C), 4.000%, 06/01/2041 | 0.7 |
| Montgomery County, MD, UT GO Consolidated Public Improvement Bonds (2016A), 4.000%, 12/01/2030  | 0.7 |
| Puerto Rico Sales Tax Financing Corp., Restructured Sales Tax Bonds (Series 2019A), 5.000%, 07/01/2058  | 0.7 |
| Minnesota State, Various Purpose Refunding UT GO Bonds (Series 2016D), 5.000%, 8/1/2025   | 0.6 |

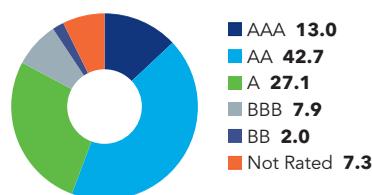
## Portfolio composition (%)



## Top sector weightings (%) - Equity



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



Portfolio composition is based on net assets at the close of business on 6/30/22 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 -16.10% for the quarter
- Large value outperformed large growth stocks as well as mid and small-cap stocks
- The equity portion of the fund slightly underperformed its benchmark

## Looking back

For the three months, major equity market indices finished in negative territory once again and saw their largest quarterly losses since the height of the pandemic. Large value stocks fared the best but still finished with losses amid concerns that stubbornly high inflation, monetary tightening, Covid, supply chain bottlenecks and geopolitical tensions could spawn a recession. Equity declines were mainly driven by P/E multiple compression as participants digested the litany of concerns and reduced their willingness to pay for more uncertain future earnings. Inflation and a hawkish Fed topped the list of worries. With a 50 basis-point hike in May and a surprise 75 basis-point increase in June, the Fed made clear that bringing down inflation was its top priority and that it viewed a potential recession as a necessary risk to restore price stability, an aggressive stance that ran counter to market expectations heading into the quarter. The war in Ukraine and rolling lockdowns in China exacerbated the situation, adding to inflation pressures by inhibiting the ability of supply chains to normalize.

In the fixed-income markets, Treasury and municipal bond yields increased sharply as investors reacted to poor bond market returns, redeeming historically large sums from municipal bond funds. During the latter half of the period, Treasury yields retraced from recent highs on increasing risk of recession in the next 12-24 months. The AAA-rated Bloomberg Evaluation 2-year, 10-year and 30-year municipal yields increased 15, 51 and 65 basis points, respectively. The yields on 2-year, 10-year and 30-year Treasury securities increased 62, 68 and 74 basis points, respectively.

In the second quarter, the S&P 500 Index returned -16.10%. Large value stocks outperformed large growth stocks as well as other market caps and styles, with the Russell 1000 Value returning -12.21% and the Russell 1000 Growth returning -20.92%. Apart from the Energy sector which was driven by the rising cost of oil, defensive stocks generally outperformed cyclical stocks in the quarter and fixed income outperformed equities.

The S&P Municipal Bond Index posted a return of -3.02% for the quarter. The three-year component of the index returned -0.06%, the 10-year component returned -2.55% and the portion of the index maturing in 22 years and longer returned -7.00%. The S&P Intermediate Municipal Bond Index returned -2.06%. The S&P High Yield Municipal Bond Index posted a return of -5.52%.

## Performance

Federated Hermes Muni & Stock Advantage Fund Institutional Shares returned -7.66% in the second quarter of 2022, underperforming the -6.74% 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

- Underweight in Financials, overweight in Energy and an allocation to Cash
- Stock selection in the Energy and Health Care sectors
- Overweight in transportation and underweight in Tax-supported debt

### Performance detractors

- Overweight in Information Technology
- Stock selection in the Communication Services and Consumer Discretionary sectors
- Duration, Rating, and Security Selection

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## How we are positioned

As we enter the third quarter, we continue to have a cautious economic and earnings outlook and expect continued market volatility. Our base case on the U.S. economy is a rocky landing as the Fed works to bring inflation under control. Inflationary concerns are apparent with consumers feeling the erosion of purchasing power, as higher prices for goods and services have them adjusting their purchases to reflect needs rather than wants. This has us reducing exposure to stocks that are more cyclical in nature and more reliant on discretionary purchases. We expect supply chains to continue to feed inflation as the war in Ukraine seems to be settling into a prolonged conflict and China continues rolling lockdowns, reinforcing the Fed's aggressive stance. Ultimately, the risk is that demand destruction will land the economy in a recession, raise the unemployment rate and cause a reduction in consumer spending. We think the Fed may need to raise rates higher than the market currently expects and keep them elevated for a time to ensure inflation is wrung out and stays out. In anticipation of this, we enter the third quarter with an elevated cash position to deploy as opportunities present themselves.

Our positioning is balanced in line with this rocky landing outlook. In equities, we are favoring higher quality defensive names with strong balance sheets and low volatility in their income stream—Health Care and Utilities are representative of these characteristics, and we overweight both sectors. In fixed income, 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 capital appreciation, and remain focused on intermediate and long-term securities and the tactical use of mid-to-lower credit quality bonds to enhance income and total return potential.

See disclosure section for important disclosures and definitions.

## Risk statistics

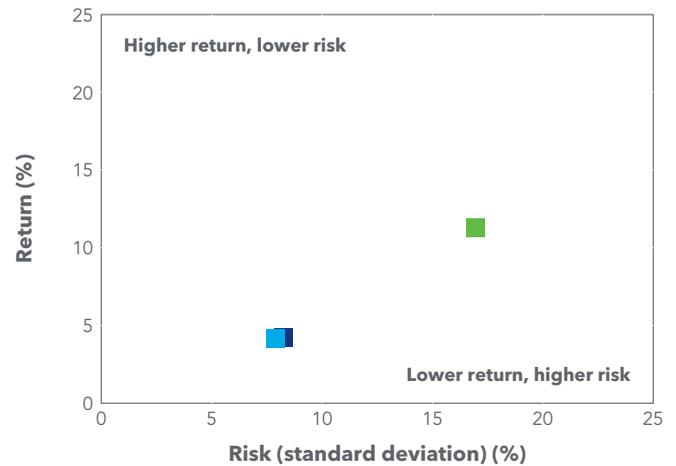
|                           | 3-year | 5-year | 7-year | 10-year |
|---------------------------|--------|--------|--------|---------|
| <b>Standard deviation</b> | 9.34   | 8.25   | 7.33   | 6.69    |
| <b>Alpha</b>              | -1.84  | -1.71  | -0.94  | -1.05   |
| <b>Beta</b>               | 0.47   | 0.46   | 0.45   | 0.44    |
| <b>Correlation</b>        | 0.94   | 0.94   | 0.94   | 0.91    |
| <b>R<sup>2</sup></b>      | 88.44  | 89.28  | 87.63  | 82.00   |

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. S&P 500 Index

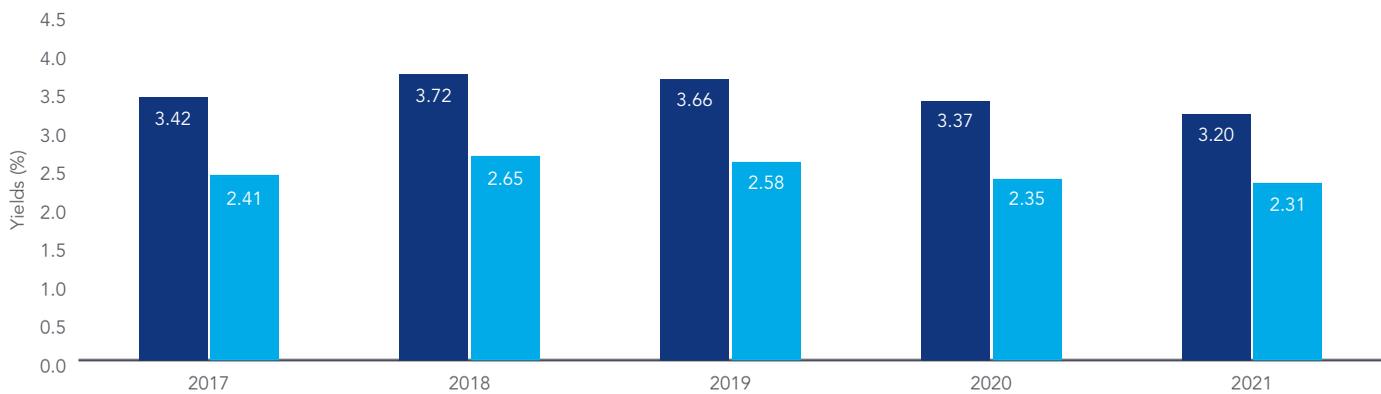
See disclosure section for important definitions.

## 5-year risk/return



|  | Risk (%) | Return (%) |
|--|----------|------------|
| Federated Hermes Muni and Stock Advantage Fund (IS)                    | 8.25     | 4.24       |
| 40% Russell 1000 <sup>®</sup> Value Index/60% S&P Municipal Bond Index | 7.91     | 4.13       |
| S&P 500 Index  | 16.95    | 11.30      |

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



■ Federated Hermes Muni and Stock Advantage Fund (IS) Tax-Equivalent Yields ■ Federated Hermes Muni and Stock Advantage Fund (IS) 12-Month Distribution Yields

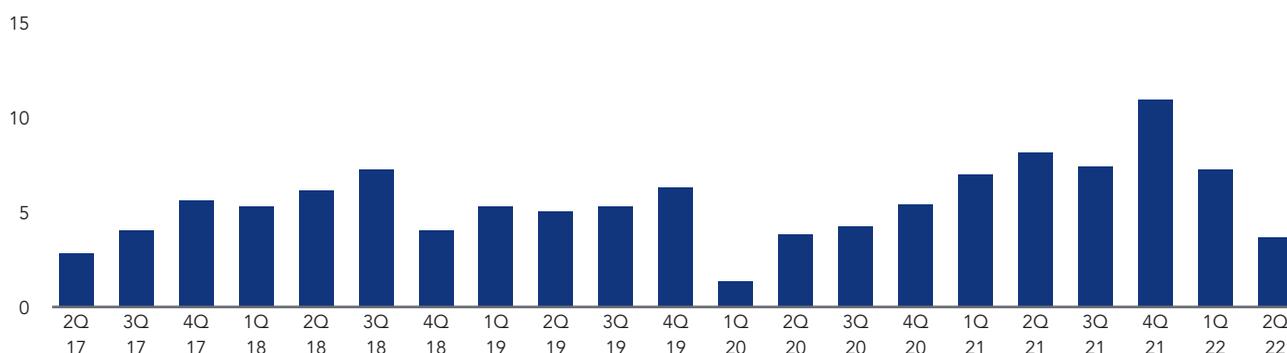
The calculation assumes a 40.8% tax rate (for 2021-2018) and 43.4% (for 2017) for the muni portion; the equity portion was not tax adjusted. The tax equivalent yield assumes the highest marginal tax rate.

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 | 15               | 11              | 15              | 26               |
|                  | Morningstar Category Rank   | 102 of 465 funds | 56 of 427 funds | 65 of 391 funds | 85 of 281 funds  |
| <b>A Shares</b>  | Morningstar Category % Rank | 18               | 17              | 24              | 36               |
|                  | Morningstar Category Rank   | 115 of 465 funds | 80 of 427 funds | 98 of 391 funds | 117 of 281 funds |

### Lipper Mixed-Asset Target Allocation Conservative Funds

|                  |                              | 1-year          | 3-year          | 5-year          | 10-year         |
|------------------|------------------------------|-----------------|-----------------|-----------------|-----------------|
| <b>IS Shares</b> | Lipper Classification % Rank | 14              | 2               | 3               | 8               |
|                  | Lipper Classification Rank   | 43 of 315 funds | 4 of 295 funds  | 7 of 280 funds  | 15 of 203 funds |
| <b>A Shares</b>  | Lipper Classification % Rank | 17              | 4               | 7               | 15              |
|                  | Lipper Classification Rank   | 52 of 315 funds | 11 of 295 funds | 19 of 280 funds | 30 of 203 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 1.47% for A Shares and 1.81% 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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