

# Federated Hermes Short-Intermediate Municipal Fund

12/31/20

## Fund facts

### Performance inception date

Institutional Shares	8/20/81
Service Shares	9/1/93
A Shares	12/11/06

### Benchmark 1

S&P Municipal Bond Short Index

### Benchmark 2

S&P Municipal Bond 1-5 Years Investment Grade 5% Max Pre-Refunded Index

### Morningstar category

Muni National Short

### Lipper classification

Short Municipal Debt Funds

### Fund assets

\$972.1 million

### Ticker symbols

Institutional Shares - FSHIX  
Service Shares - FSHSX  
A Shares - FMTAX

### Key investment team

Jeff Kozemchak, CFA®  
Mary Jo Ochson, CFA®

### Yields (%)

30-day yield (IS)	0.59
30-day yield (SS)	0.35
30-day yield (A)	0.34

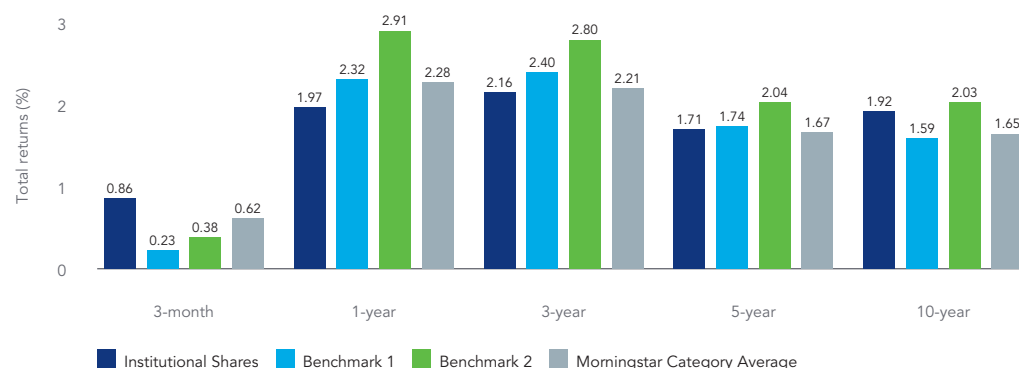
## Fund description

Investing primarily in short and intermediate municipal bonds, the fund seeks to provide dividend income exempt from federal regular income tax.

## 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>	0.86	1.97	1.97	2.16	1.71	1.92	3.92	0.82	0.46
<b>Service Shares</b>	0.80	1.73	1.73	1.92	1.47	1.68	2.64	0.82	0.71
<b>A Shares (NAV)</b>	0.79	1.72	1.72	1.75	1.26	1.44	1.68	0.82	0.71
<b>A Shares (MOP)</b>	-0.17	0.74	0.74	1.42	1.07	1.34	1.60	0.82	0.71
<b>Benchmark 1</b>	0.23	2.32	2.32	2.40	1.74	1.59	-	-	-
<b>Benchmark 2</b>	0.38	2.91	2.91	2.80	2.04	2.03	-	-	-



## Calendar year total returns (%)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
<b>Institutional Shares</b>	1.97	3.34	1.19	2.15	-0.05	0.58	2.13	0.46	2.41	5.14
<b>Benchmark 1</b>	2.32	3.11	1.78	1.16	0.37	0.88	1.02	1.10	1.39	2.27
<b>Benchmark 2</b>	2.91	3.75	1.77	1.66	0.15	1.33	1.45	1.33	1.97	4.09
<b>Morningstar Category Average</b>	2.28	3.12	1.18	1.69	-0.15	0.70	1.44	-0.07	1.92	3.60

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 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 contractual and/or voluntary fee waivers and/or expense reimbursements determined by the fund's Advisor and its affiliates. Shareholders must approve any changes to a contractual required waiver/reimbursement. Additionally, the voluntary waivers and/or reimbursements, if applicable, are in effect up to but not including the later of 9/1/21 or the date of the fund's next effective prospectus.

## Investment approach

Multiple alpha sources	Portfolio positioning	Integrated investment team
<ul style="list-style-type: none"> <li>The municipal bond investment process is integrated with Federated Hermes' fixed-income effort (the Alpha Pod process) as broad market and macroeconomic forces drive returns across taxable and tax-exempt bond markets</li> <li>Seeks diversified sources of alpha across municipal credit sector and credit quality allocation, duration management, yield curve management and security selection</li> </ul>	<ul style="list-style-type: none"> <li>Invests primarily in short-intermediate tax-exempt municipal bonds and typically maintains a dollar-weighted average portfolio duration of less than 5 years</li> <li>Historically has invested less than 5% in below-investment grade securities*</li> <li>Allocates across fixed and floating securities based on direction of interest rates and across municipal sectors that offer the best risk/return profile</li> </ul>	<ul style="list-style-type: none"> <li>Federated Hermes' municipal investment team has experience across a range of investment strategies, from liquidity management to intermediate and longer-duration portfolios</li> <li>Key investment team members manage liquidity, ultrashort and low duration municipal portfolios, applying their insights across the short-end of the yield curve</li> </ul>

\* Per the prospectus, the fund is permitted to invest up to 49% in below-investment grade securities.

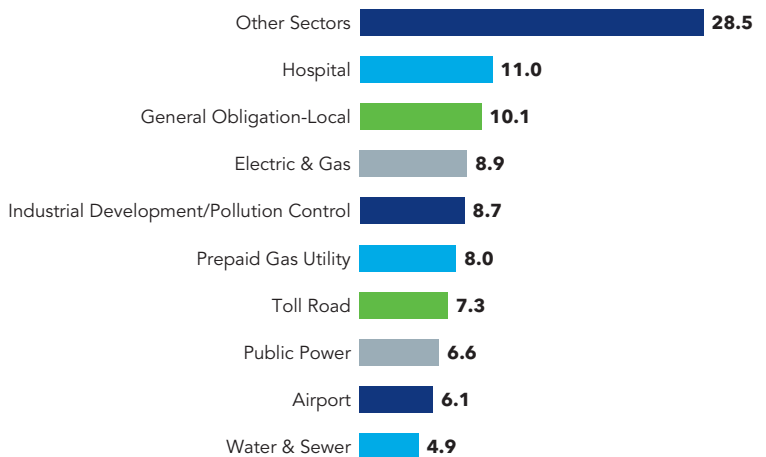
### Portfolio statistics

Weighted average effective duration	2.8 yrs.
Weighted average effective maturity	3.4 yrs.
Weighted average bond price	\$108.85
Weighted average yield to worst	0.76%

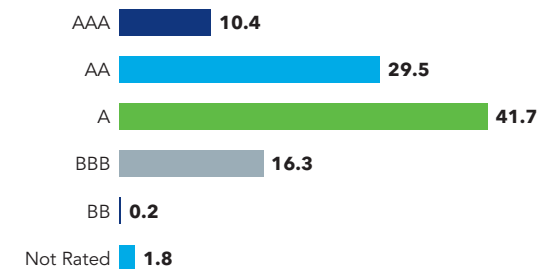
### Top holdings (%)

Nuveen California AMT-Free Quality Municipal Income Fund, (Series A), Due 1/7/21	1.8
Port of Port Arthur Navigation District of Jefferson County, TX, (Motiva Enterprises LLC), (Series 2010C), Due 1/4/21	1.6
Geisinger Authority, PA Health System, (Geisinger Health System), Health System Revenue Bonds (Series 2014B), Due 3/1/24	1.3
Tennergy Corp., TN Gas Revenue, Gas Supply Revenue Bonds (Series 2019A), Due 10/1/24, Royal Bank of Canada Guaranteed	1.3
Public Energy Authority of Kentucky, Gas Supply Revenue Bonds (Series 2020A), Due 6/1/26, BP PLC Guaranteed	1.1
Bay Area Toll Authority, CA, San Francisco Bay Area Toll Bridge Revenue Bonds (SIFMA Index Rate Bonds Series 2007G-1), Due 10/1/23	1.0
Denton, TX Independent School District, Variable Rate UT GO School Building Bonds (Series 2014-B), Due 8/1/24, Texas Permanent School Fund Guarantee Program Insured	1.0
Lower Alabama Gas District, Gas Project Revenue Bonds Project No.2 (Series 2020A), Due 12/1/25, Goldman Sachs Group, Inc. Guaranteed	1.0
New Jersey EDA, (New Jersey State), School Facilities Construction Refunding SIFMA Index Bonds (Series 2013 I), Due 9/1/25	1.0
San Francisco, CA City and County, (1500 Mission Urban Housing LP), SPEARs 3a7 (Series DBE-8059), Due 3/1/21, Deutsche Bank AG LCD, Deutsche Bank AG Liquidity	1.0
<b>Total % of portfolio</b>	<b>12.1</b>

### Sector weightings (%)



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



Portfolio composition is based on net assets at the close of business on 12/31/20 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 fund's quarterly net and gross returns significantly beat the high-quality benchmark
- The fund's overweight in credit and economically sensitive sectors benefited performance
- The fund's longer-duration positioning helped performance

## Looking back

A volatile fourth quarter provided a fitting end to 2020. As the cooler weather sent more people inside, the long-dreaded second wave of Covid-19 arrived. Despite the spike of new infections, state and local governments did not mandate the same widespread shutdowns seen in March. A common strategy was to target certain types of businesses, such as entertainment venues and restaurants. These less-stringent measures mitigated the economic damage of the resurgence, though they still muted improvement in some activity, including the progress made by the labor market. Many Americans remained unemployed as businesses slowed their pace of rehiring employees. Calls grew for Congress to deliver another round of fiscal stimulus, as many months had passed since the CARES Act in March. The Federal Reserve (Fed) in particular, made clear that government action was needed to complement its aggressive monetary policy. These entreaties were not heeded in the first two months of the quarter, shelved by the politically charged atmosphere of the national election.

In the last Federal Open Market Committee (FOMC) meeting of the year, policymakers left the target range of the federal funds rate at 0-0.25%, and all FOMC participants projected it to remain in this range throughout 2021. They also announced the Fed will continue the asset-purchase program at the current pace. In response to the Treasury Department's decision to let most of the emergency lending facilities expire at the end of the year, the Fed aggressively argued that these programs still were needed to support an economy struggling to recover.

As the reporting period ended, the U.S. FDA approved the use of two Covid-19 vaccines, bringing hope that the pandemic might soon end. The rollout began with health-care professionals and other frontline workers, with plans to expand to the greater population in the coming months. The wait for more fiscal support ended when Congress passed a \$900-billion relief bill, though the amount of payments to Americans remained under debate.

The ability of many state and local governments to rely on financial reserves and expenditure cuts, along with pockets of surprising revenue resilience improved the outlook for budgetary imbalances in the quarter. While Congress' relief package did not include direct aid to them, it targeted sectors crucial to municipalities, so the expected rise in economic activity stemming from the stimulus should produce indirect benefits.

Continued economic recovery in the U.S., the enactment of another large federal Covid-19 relief package and optimism regarding the eventual favorable economic effects of coronavirus vaccines supported ongoing investor inflows into the municipal bond market. Credit spreads within the municipal market tightened sharply, reflecting strong demand for higher-yielding munis and expectations of improved fundamentals in coming quarters for many coronavirus-challenged sectors—such as airports, hospitals and senior living centers. Municipal Market Data (MMD) 2-year yields increased by 1 basis point, while 10- and 30-year yields decreased by 16 and 23 basis points, respectively, during the quarter. Treasury yields moved in the opposite direction, with short-term yields declining upon strong Fed commitment to zero short-term rates, while 10-year and longer yields increased with expectations of ongoing economic recovery and some increase in inflation. Yields on 2-year Treasury securities decreased by 7 basis points, while the 10- and 30-year Treasury securities increased by 23 and 19 basis points, respectively, over the quarter.

The S&P Municipal Bond Index posted a return of 1.72% for the quarter. The three-year component of the index returned 0.34%, the 10-year component returned 1.73% and the portion of the index maturing in 22 years and longer returned 3.21%. The S&P Municipal Bond Short Index (SPMBSI), the fund's prospectus benchmark, returned 0.23% over the quarter.

## Performance

During the fourth quarter of 2020, the fund had net total returns of 0.86% for the Institutional Shares (IS), 0.80% for the Service Shares (SS) and 0.79% for the Class (A) Shares at net asset value (NAV). These returns exceeded the SPMBSI return of 0.23% over the quarter.

### Performance contributors

- Overweight in credit, namely securities rated A and BBB, as municipal credit spreads rallied sharply over the quarter
- Sector allocations, both overweights and security selection in corporate credit and prepaid gas utility bonds, and in local General Obligation, Health Care, Public Power and Transportation sectors led to outperformance
- Longer duration than the benchmark

### Performance detractors

- The fund's weightings in daily variable-rate demand notes (VRDNs) for liquidity were a slight drag on performance given the very low average yields for these instruments over the quarter

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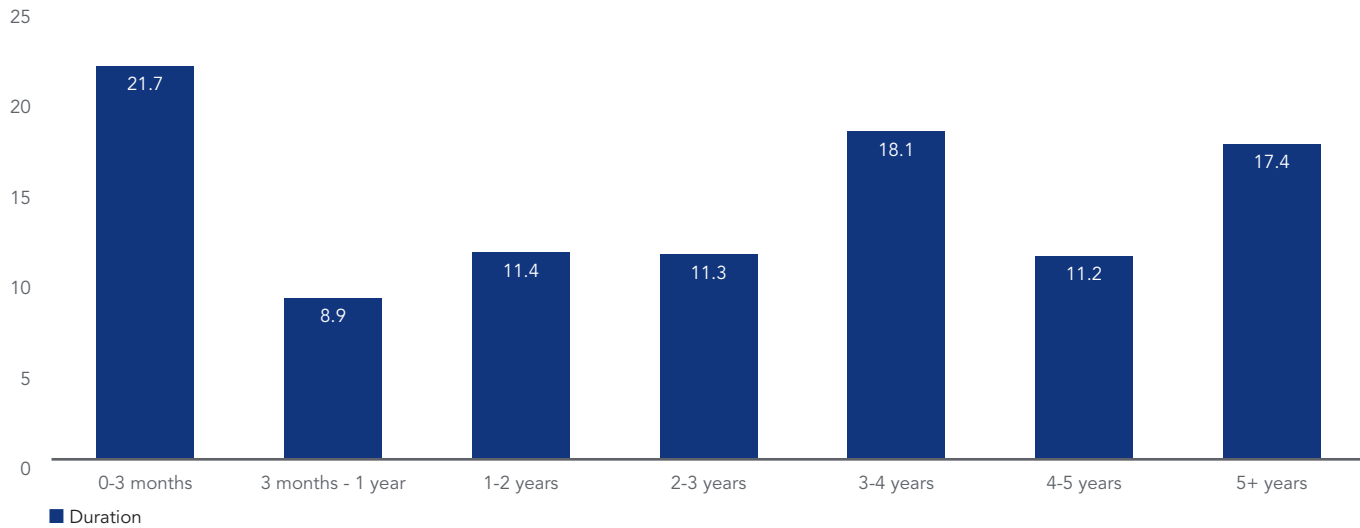
## How we are positioned

With the Fed now employing a zero-interest rate policy for the foreseeable future, management believes the portfolio structure will continue to emphasize the higher return potential of mid-quality fixed-rate issuance in the 3-to-10-year space. With high-grade municipal yield valuations at very rich levels compared to Treasuries and even corporates, we remain constructive to investing in mid-quality and lower general obligation and revenue debt of issuers that are less sensitive to recessionary and revenue pressures and/or have significant reserves to cushion the ongoing economic impact of Covid-19. Expected additional stimulus and federal aid to municipalities would also support mid-to-lower-investment-grade sectors and credits.

With the relatively flat yield curve, the portfolio should continue to benefit from the existing weighting of 12% in floating-rate notes, which contribute to higher income and capital stability.

*See disclosure section for important disclosures and definitions.*

## Duration profile (%)



## Risk statistics

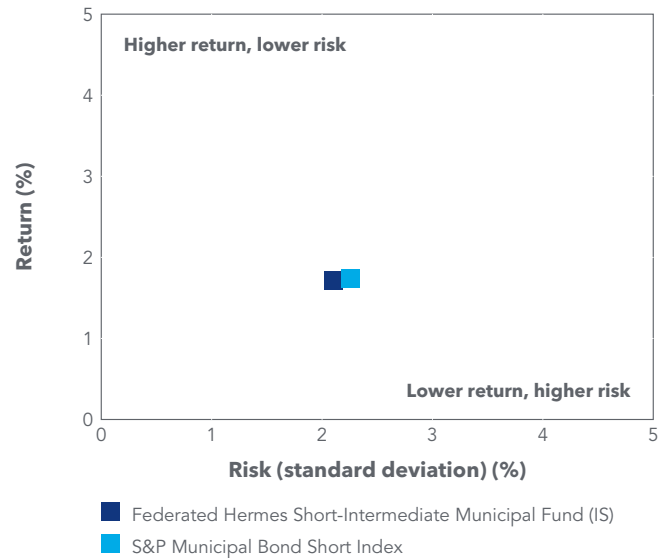
	3-year	5-year	7-year	10-year
<b>Standard deviation</b>	2.52	2.10	1.83	1.76
<b>Alpha</b>	-1.18	-0.51	-0.50	-0.32
<b>Beta</b>	1.01	0.80	0.77	0.80
<b>Up capture ratio</b>	78.48	71.12	67.41	73.08
<b>Down capture ratio</b>	112.35	74.29	71.84	74.61
<b>Sharpe ratio</b>	0.25	0.26	0.41	0.68

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. S&P Municipal Bond Short Index

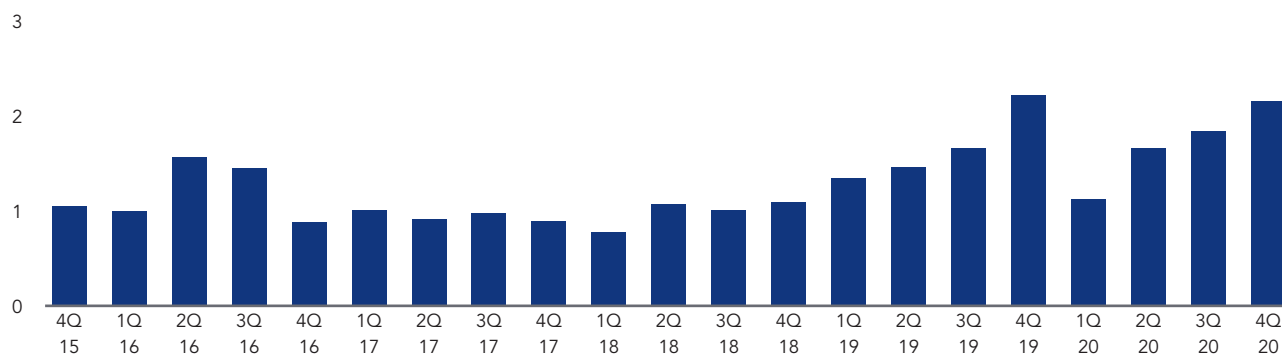
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## 5-year risk/return



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



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## Category rankings

### Morningstar Muni National Short Category

		1-year	3-year	5-year	10-year
<b>IS Shares</b>	Morningstar Category % Rank	61	56	44	32
	Morningstar Category Rank	149 of 222 funds	124 of 200 funds	83 of 178 funds	48 of 137 funds
<b>A Shares</b>	Morningstar Category % Rank	71	74	78	63
	Morningstar Category Rank	167 of 222 funds	158 of 200 funds	142 of 178 funds	89 of 137 funds

### Lipper Short Municipal Debt Funds

		1-year	3-year	5-year	10-year
<b>IS Shares</b>	Lipper Classification % Rank	49	40	24	7
	Lipper Classification Rank	70 of 142 funds	50 of 124 funds	25 of 106 funds	5 of 77 funds
<b>A Shares</b>	Lipper Classification % Rank	59	66	69	45
	Lipper Classification Rank	83 of 142 funds	82 of 124 funds	73 of 106 funds	35 of 77 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 Short-Intermediate Municipal Fund

As of June 29, 2020, the fund was renamed Federated Hermes Short-Intermediate Municipal Fund.

As of October 31, 2007, the fund gained the ability to invest at least a majority of its assets in securities rated investment-grade (or unrated securities of comparable quality), and may purchase securities rated below investment-grade (or unrated securities of comparable quality), which are also known as junk bonds, up to 49% of its assets. The fund does not have a specific minimum quality rating.

As of August 31, 2019, benchmark 1 changed from S&P Municipal Bond Short Intermediate Index to S&P Municipal Bond Short Index and benchmark 2 changed from S&P 1-5 Year National AMT-Free Municipal Bond Index to S&P Municipal Bond 1-5 Years Investment Grade 5% Max Pre-Refunded Index.

<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 0.42% for IS, 0.24% for A and 0.25% for SS shares.

### 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.

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

Prices of emerging market and frontier 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.

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 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 spread duration** is the average of the spread durations of the underlying securities.

**Weighted average yield to worst** is an average of the lowest potential yield that can be received on a bond without the issuer actually defaulting. The yield to worst is calculated by making worst-case scenario assumptions on the issue by calculating the returns that would be received if provisions, including prepayment, call or sinking fund, are used by the issuer.

**Yield curve** is a graph showing the comparative yields of securities in a particular class according to maturity. Securities on the long end of the yield curve have longer maturities.

**S&P Municipal Bond 1-5 Years Investment Grade 5% Max Pre-Refunded Index** represents the portion of the S&P Municipal Bond Investment Grade Index composed solely of investment-grade bonds (those with ratings higher than "BBB-"/"Baa3") with remaining maturities of between one and five years, 5% of which are pre-refunded. Indexes are unmanaged and cannot be invested in directly.

**S&P Municipal Bond Short Index** consists of bonds in the S&P Municipal Bond Index with a minimum maturity of 6 months and a maximum maturity of 4 years. Indexes are unmanaged and cannot be invested in directly.

### Ratings and rating agencies

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