

# Federated Hermes Total Return Bond Fund

9/30/20

## Fund facts

### Performance inception date

R6 Shares	10/1/96
Institutional Shares	10/1/96
A Shares	8/16/01

### Benchmark 1

Bloomberg Barclays U.S. Aggregate Bond Index

### Benchmark 2

Bloomberg Barclays U.S. Universal Index

### Morningstar category

Intermediate Core-Plus Bond

### Lipper classification

Core Bond Funds

### Fund assets

\$9.7 billion

### Ticker symbols

R6 Shares - FTRLX  
 Institutional Shares - FTRBX  
 Service Shares - FTRFX  
 A Shares - TLRAX  
 C Shares - TLRCX  
 R Shares - FTRKX

### Key investment team

Donald Ellenberger  
 Jerome Conner, CFA®  
 R.J. Gallo, CFA®  
 Chengjun (Chris) Wu, CFA®  
 Todd Abraham, CFA®  
 Mark Durbiano, CFA®  
 Ihab Salib  
 Steven Wagner  
 Christopher McGinley

### Yields (%)

30-day yield (R6)	2.49
30-day yield (IS)	2.48
30-day yield (A)	1.85

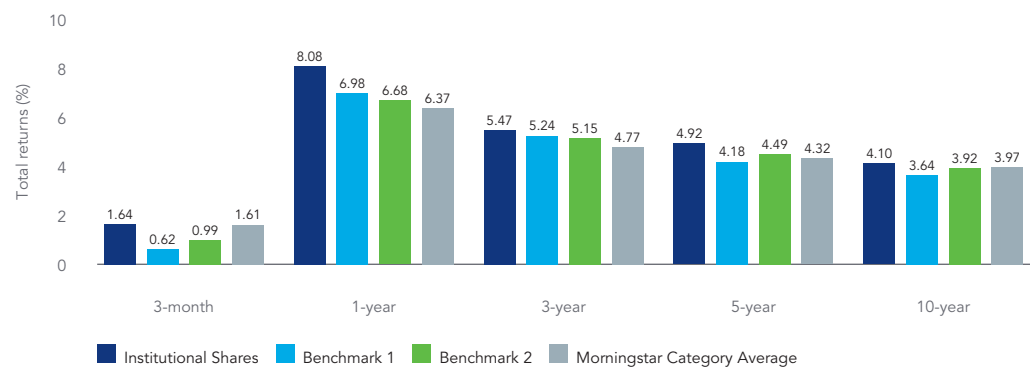
## Fund description

The fund pursues total return by investing in a broad mix of bond sectors that management believes will benefit from changes in economic and market conditions. U.S. government and investment-grade corporate bonds predominate, with limits on exposure to domestic high-yield and both developed and emerging international sectors.

## 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	Expense ratio* After waivers
<b>R6 Shares</b>	1.56	7.22	8.00	5.45	4.94	4.04	5.19	0.42	0.38
<b>Institutional Shares</b>	1.64	7.21	8.08	5.47	4.92	4.10	5.68	0.46	0.39
<b>A Shares (NAV)</b>	1.50	6.77	7.49	4.89	4.35	3.53	4.51	1.00	0.94
<b>A Shares (MOP)</b>	-3.04	1.98	2.67	3.28	3.39	3.06	4.26	1.00	0.94
<b>Benchmark 1</b>	0.62	6.79	6.98	5.24	4.18	3.64	-	-	-
<b>Benchmark 2</b>	0.99	6.20	6.68	5.15	4.49	3.92	-	-	-



## Calendar year returns (%)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Institutional Shares</b>	9.73	-0.86	4.40	4.96	-0.16	5.29	-0.87	6.58	6.28	7.35
<b>Benchmark 1</b>	8.72	0.01	3.54	2.65	0.55	5.97	-2.02	4.21	7.84	6.54
<b>Benchmark 2</b>	9.29	-0.26	4.09	3.91	0.43	5.59	-1.35	5.53	7.40	7.77
<b>Morningstar Category Average</b>	8.94	-0.61	4.27	3.86	-0.45	5.42	-0.90	7.76	6.27	8.51

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 voluntary fee waivers and/or expense reimbursements determined by the fund's Advisor and its affiliates. The voluntary waivers and/or reimbursements, if applicable, are in effect up to but not including the later of 2/1/21 or the date of the fund's next effective prospectus.

## Investment approach

### Core Plus, Intermediate Bond Fund

- A disciplined approach to core fixed income with a conservative, investment-grade risk profile
- Invests primarily in U.S. government, mortgage-backed and investment-grade corporate fixed income with modest exposure to sectors such as high yield and emerging markets debt
- May invest in below investment-grade securities up to 25%

### Consistent, repeatable investment process

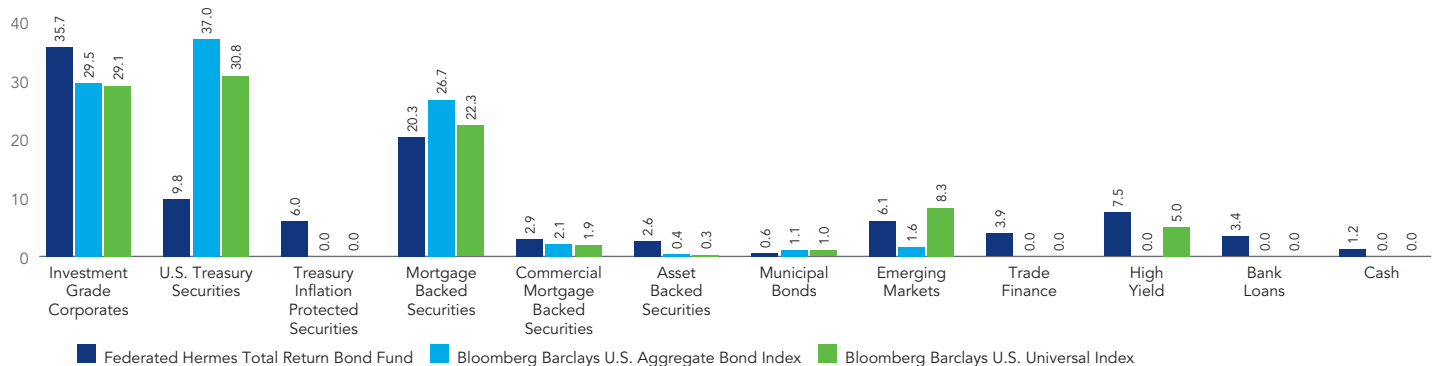
- Combines top-down decision making with bottom-up security selection to build diversified, risk-managed portfolios
- Key decision teams known as “alpha pods” seek diversified, uncorrelated alpha sources across various market environments
- Positioning set across five factors: sector allocation, security selection, duration management, yield curve strategy and currency management

### Tenured team with long-term results

- Team-based approach focused by sector to extract value from each step of the process
- Federated Hermes’ fixed-income philosophy and process has a 45-year heritage
- Senior fixed-income management team averages 27 years of experience, and team members have worked together at Federated Hermes for 22 years

As of 9/30/20

## Sector weightings (%)



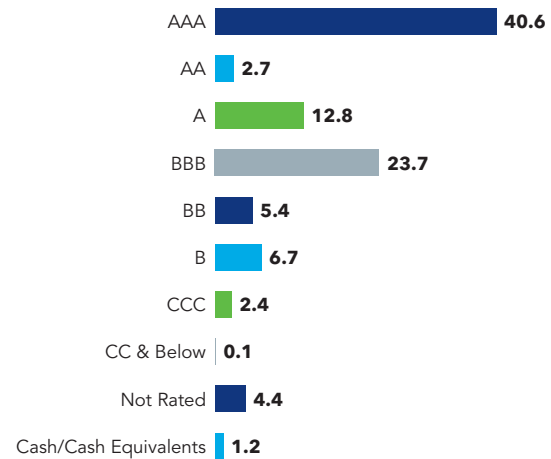
## Portfolio statistics

Weighted average effective maturity	7.4 Yrs.
Weighted average effective duration	5.7 Yrs.
Weighted average coupon	3.27%
Weighted average yield to maturity	2.26%
Weighted average bond price	\$107.08

## Top holdings (%)

Mortgage Core Fund	21.9
High Yield Bond Core Fund	6.8
Emerging Markets Core Fund	4.4
Project and Trade Finance Core Fund	4.2
Bank Loan Core Fund	4.0
U.S. Treasury Note, TIPS, 0.125% due 7/15/30	3.9
U.S. Treasury Bond, 1.250% due 5/15/50	2.8
U.S. Treasury Note, 0.125% due 5/15/23	2.1
U.S. Treasury Note, TIPS, 0.125% due 4/15/25	1.9
U.S. Treasury Note, 0.625% due 8/15/30	1.1
Total % of portfolio	53.1

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



Portfolio composition is based on net assets at the close of business on 9/30/20 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

- Institutional Shares returned 1.64% vs. 0.62% for the Bloomberg Barclays U.S. Aggregate Bond Index (BBAB) in the quarter
- Allocations to credit sectors—high-yield and investment-grade (IG) corporates, emerging-market (EM) bonds and bank and trade-finance loans—were main drivers of outperformance
- The fund starts the fourth quarter with the same overall interest-rate sensitivity and yield curve exposure as the BBAB and has reduced exposure to but remains overweight in credit sectors

## Looking back

Riskier sectors of the bond market continued to rally the first two months of the third quarter, fueled by ultra-accommodative Federal Reserve (Fed) monetary policy, massive government stimulus, perceived progress on a vaccine and a steady rebound in economic activity from the deep but short Covid-19 recession. In September, however, the rally faltered over three primary fears: the country could see a resurgence in the virus with the onset of cooler weather and the return of students to school; a phase-four fiscal stimulus deal might not be passed; and a drawn-out, contested election with civil unrest may come to pass. The last time there was a contested presidential election, in 2000, stocks fell 10% and corporate bond spreads widened.

Despite a volatile economic and political climate, Treasury rates remained remarkably stable, anchored on the short end (less than five years) by the Fed's promise to keep the overnight federal funds rate near zero for at least the next three years. Two-year Treasury rates only moved from 0.15% to 0.13% during the quarter and 5-year Treasury rates only moved from 0.29% to 0.28%. Longer-term rates also were little changed, in large part due to the Fed's purchase of Treasury bonds. Thirty-year Treasury rates, for example, rose from 1.41% to 1.46%.

The Fed's official adoption of flexible average inflation targeting (FAIT) represented a major policy revision with significant long-term implications, but it had little impact on rates. In past decades, the Fed has preemptively tightened monetary policy when unemployment declined to levels it considered consistent with full employment, under the assumption a tight labor market would lead to a spike in inflation. But inflation in recent years has not picked up even as the unemployment rate has fallen below 4%. Under FAIT, the Fed has pledged not to raise interest rates until the economy has reached full employment and the inflation rate has risen to at least 2% on a sustainable basis. While this in theory should exert upward pressure on longer-term rates, the fact rates did not increase much suggests the market questions the Fed's ability to push inflation higher given the dampening impacts of an aging demographic and technological advances.

For the quarter, all sectors of the bond market managed to outperform Treasuries with the exception of government mortgage-backed securities (MBS). The best performers, in order of excess returns to duration-equivalent Treasuries, were high-yield, bank loans, EM, commercial MBS, IG corporates, trade-finance loans, asset-backed securities (ABS) and government MBS.

## Performance

Federated Hermes Total Return Bond Fund Institutional Shares posted a total return net of fees of 1.64% for the quarter, compared to a return of 0.62% for the BBAB Index. The fund's total return for the period also reflected actual cash flows, transaction costs and other expenses that were not reflected in the total return of the BBAB Index.

### Performance contributors

- Allocations to high-yield and IG corporates, EM bonds and bank and trade finance loans
- Security selection within the MBS and IG corporate sectors and an allocation to Treasury Inflation-Protected Securities (TIPS)

### Performance detractors

- None of significance

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## How we are positioned

After adding modestly to the fund's risk profile early in the quarter, we began paring risk in September, and the fund begins the fourth quarter with a more modest overweight to the credit sectors than in the second and third quarters. Concerns over the impact a contested election could have on credit spreads was the primary reason for the tactical retreat.

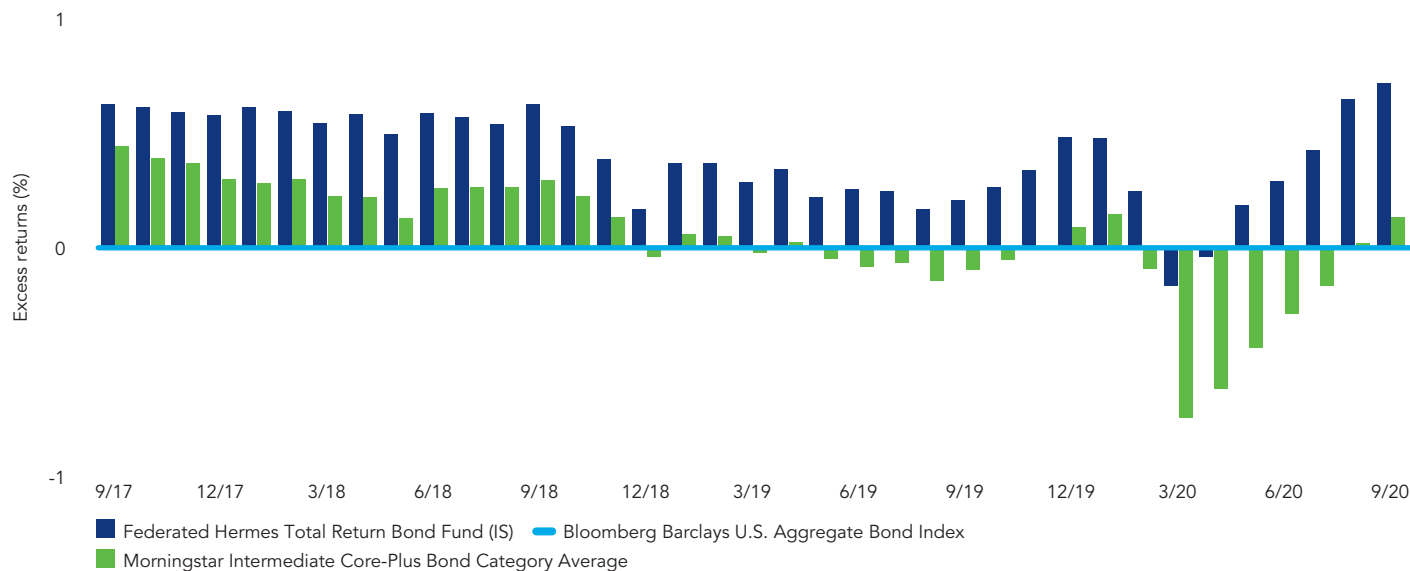
Despite these near-term worries, the fund remains overweight to credit because we believe credit will outperform government bonds in the long run due mainly to Fed support. The Fed's promise to keep short-term rates near zero for years, combined with its willingness to purchase IG corporate bonds, high-yield fallen angels, ABS, commercial MBS, municipal bonds and other fixed-income securities, create a powerful backstop for credit sectors of the bond markets.

The fund also ended the third quarter with several small currency positions that could benefit from a weaker dollar. In terms of major security selection themes, the fund increased its position in TIPS from 4% to 6%, and retains an overweight to BBB-rated corporates.

The fund employs derivatives to hedge risk and express duration, yield curve, sector, currency and volatility investment themes when they are less expensive or more efficient than physical securities to do so. It also continues to actively incorporate into its security selection process sustainable investing practices that focus on environmental, social and governance issues.

*See disclosure section for important disclosures and definitions.*

## 5-year rolling excess performance vs. Bloomberg Barclays U.S. Aggregate Bond Index



Source: Morningstar, Inc. Performance for 5-year periods (1-month step) from 10/1/12 - 9/30/20.

Returns are for IS Shares. Other classes of shares are available whose performance will vary due to different charges and expenses.

### Risk statistics

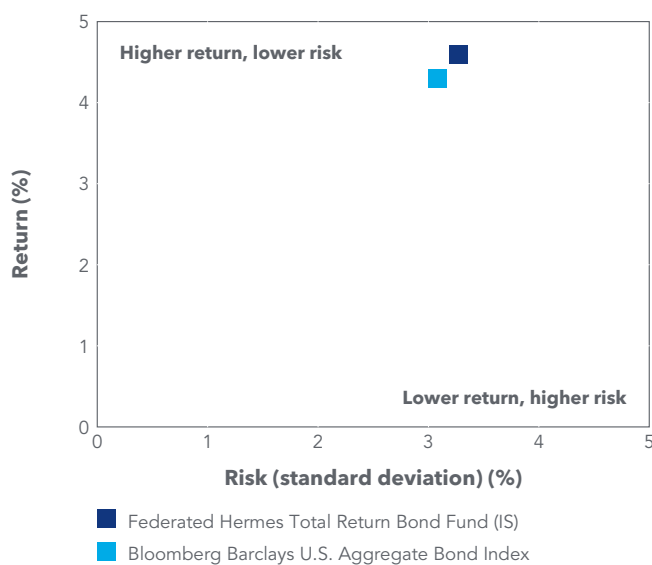
	3-year	5-year	7-year	10-year
<b>Standard deviation</b>	3.68	3.34	3.10	3.01
<b>Alpha</b>	0.51	1.00	0.79	0.78
<b>Beta</b>	0.92	0.91	0.89	0.89
<b>Up capture ratio</b>	102.74	107.61	101.55	102.96
<b>Down capture ratio</b>	99.32	89.64	85.02	88.22
<b>Sharpe ratio</b>	1.03	1.11	1.15	1.15

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. Bloomberg Barclays U.S. Aggregate Bond Index

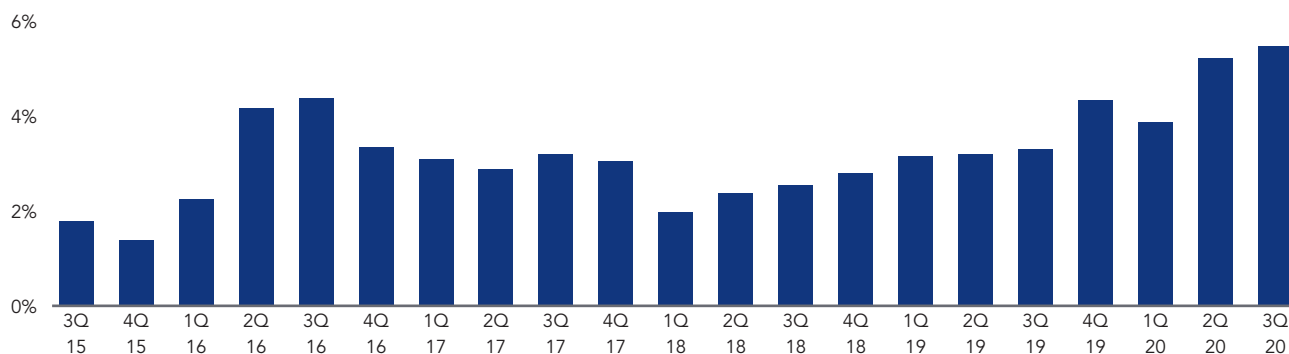
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### 5-year risk/return



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## 3-year rolling returns (IS)



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).

## Category rankings

### Morningstar Intermediate Core-Plus Bond Category

	1-year	3-year	5-year	10-year
<b>R6 Shares</b>				
Morningstar Category % Rank	17	26	18	42
Morningstar Category Rank	107 of 605 funds	128 of 537 funds	82 of 459 funds	–
<b>IS Shares</b>				
Morningstar Category % Rank	16	25	20	42
Morningstar Category Rank	98 of 605 funds	121 of 537 funds	89 of 459 funds	130 of 341 funds
<b>A Shares</b>				
Morningstar Category % Rank	31	52	54	78
Morningstar Category Rank	179 of 605 funds	281 of 537 funds	234 of 459 funds	254 of 341 funds

### Lipper Core Bond Funds

	1-year	3-year	5-year	10-year
<b>R6 Shares</b>				
Lipper Classification % Rank	17	23	8	–
Lipper Classification Rank	84 of 505 funds	103 of 463 funds	32 of 411 funds	–
<b>IS Shares</b>				
Lipper Classification % Rank	15	21	9	21
Lipper Classification Rank	74 of 505 funds	96 of 463 funds	35 of 411 funds	65 of 312 funds
<b>A Shares</b>				
Lipper Classification % Rank	31	62	36	62
Lipper Classification Rank	156 of 505 funds	285 of 463 funds	147 of 411 funds	191 of 312 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 Total Return Bond Fund

As of June 29, 2020, the fund was renamed Federated Hermes Total Return Bond Fund.

<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. For an indefinite period of time, the investment advisor is waiving all or part of its fee and, in addition, may reimburse the fund for some of its expenses. Otherwise, the yield would have been 2.45% for R6 Shares, 2.41% for Institutional Shares and 1.81% for A Shares.

The fund's R6 Shares commenced operations on April 22, 2015. For the period prior to the commencement of operations of the R6 Shares, the performance information shown is for the fund's Institutional Shares, adjusted to reflect the expenses of the R6 Shares for each year for which the expenses of the R6 Shares would have exceeded the actual expenses paid by the Institutional Shares.

### A word about risk

Mutual funds are subject to risks and fluctuate in value.

High-yield, lower-rated securities generally entail greater market, credit/default and liquidity risks, and may be more volatile than investment-grade securities.

Bond prices are sensitive to changes in interest rates, and a rise in interest rates can cause a decline in their prices.

The value of some mortgage-backed securities may be particularly sensitive to changes in prevailing interest rates, and although the securities are generally supported by some form of government or private insurance, there is no assurance that private guarantors or insurers will meet their obligations.

### Definitions

**Alpha** shows how much or how little return is generated, given the risk a portfolio takes. A portfolio with an alpha greater than 0 has earned more than expected given its beta—meaning the portfolio has generated excess return without increasing risk.

A portfolio with a negative alpha is producing a lower return than would be expected given its risk.

**Beta** measures a portfolio's volatility relative to the market. A beta greater than 1.00 suggests the portfolio has historically been more volatile than the market as measured by the fund's benchmark. A beta less than 1.00 suggests the portfolio has historically had less volatility relative to the market.

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

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

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

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

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

**Weighted average effective duration** (sometimes called "Option-Adjusted Duration") is a measure of a security's price sensitivity to changes in interest rates calculated using a model that recognizes that the probability of a bond being called or remaining outstanding until maturity may vary if market interest rates change, and that makes adjustments based on a bond's embedded options (e.g., call rights, or in the case of a mortgage-backed security, the probability that homeowners will prepay their mortgages), if any, based on the probability that the options will be exercised. A fund's weighted average effective duration will equal the market value weighted average of each bond's effective duration in the fund's portfolio. As with any model, several assumptions are made so the weighted average effective duration of a fund in the Federated Hermes family of funds may not be comparable to other funds outside of the Federated Hermes family of funds. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

**Weighted average effective maturity** is the average time to maturity of debt securities held in the fund.

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

**Bloomberg Barclays U.S. Aggregate Bond Index** is an unmanaged index composed of securities from the Bloomberg Barclays Government/Corporate Bond Index, the Mortgage-Backed Securities Index and the Asset-Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indices are rebalanced monthly by market capitalization.

**Bloomberg Barclays U.S. Universal Index** represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield, Investment Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index and the non-ERISA eligible portion of the CMBS Index. The index covers USD denominated, taxable bonds that are rated either investment-grade or below investment-grade.

**Russell Top 200® Index** measures the performance of the largest cap segment of the U.S. equity universe. The Russell Top 200® Index is a subset of the Russell 3000® Index. It includes approximately 200 of the largest securities based on a combination of their market cap and current index membership and represents approximately 68% of the U.S. market. The Russell Top 200® Index is constructed to provide a comprehensive and unbiased barometer for this very large cap segment and is completely reconstituted annually to ensure new and growing equities are reflected.

Indexes are unmanaged and cannot be invested in directly.

### Ratings and rating agencies

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