

# Federated Hermes Ultrashort Bond Fund

9/30/20

## Fund facts

### Performance inception date

R6 Shares	2/22/00
Institutional Shares	2/22/00
Service Shares	5/31/97
A Shares	5/31/97

### Benchmark

Bloomberg Barclays U.S. Short-Term Government/Corporate Index

### Morningstar category

Ultrashort Bond

### Lipper classification

Ultra-Short Obligations Funds

### Fund assets

\$4.0 billion

### Ticker symbols

R6 Shares - FULLX  
 Institutional Shares - FULIX  
 Service Shares - FULBX  
 A Shares - FULAX

### Key investment team

Randall Bauer, CFA®  
 Nicholas Tripodes, CFA®

### Yields (%)

30-day yield (R6)	1.05
30-day yield (IS)	1.04
30-day yield (SS)	0.95
30-day yield (A)	0.89

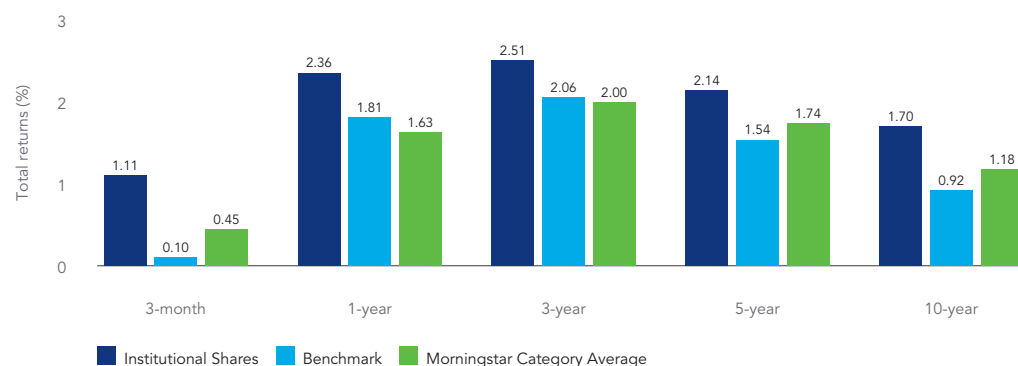
## Fund description

The fund seeks total return consistent with current income by investing primarily in a diversified portfolio of investment-grade debt, including asset- and mortgage-backed, corporate, Treasury and government-agency securities. Its portfolio is invested in sectors that offer the best risk/return balance, while maintaining a weighted average effective duration of one year or less.

## 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>R6 Shares</b>	1.22	1.76	2.37	2.52	2.15	1.70	2.63	0.42	0.36
<b>Institutional Shares</b>	1.11	1.76	2.36	2.51	2.14	1.70	2.63	0.45	0.37
<b>Service Shares</b>	1.09	1.68	2.20	2.15	1.75	1.28	2.65	0.56	0.47
<b>A Shares</b>	1.07	1.64	2.03	2.07	1.65	1.18	2.46	0.61	0.52
<b>Benchmark</b>	0.10	1.26	1.81	2.06	1.54	0.92	-	-	-



## Calendar year returns (%)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Institutional Shares</b>	3.75	-0.86	4.40	4.96	-0.16	5.29	-0.87	6.58	6.28	7.35
<b>Benchmark</b>	2.69	1.99	0.98	0.80	0.26	0.18	0.25	0.36	0.37	0.68
<b>Morningstar Category Average</b>	3.08	1.61	1.44	1.31	0.21	0.31	0.50	1.99	0.22	2.37

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). 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 12/1/20 or the date of the fund's next effective prospectus.

## Investment approach

Multiple alpha sources	Portfolio positioning	Tenured team with long-term results
<ul style="list-style-type: none"> <li>The ultrashort bond investment process is integrated with Federated Hermes' fixed-income effort (the Alpha Pod process) as broad market and macroeconomic forces drive returns</li> <li>Seeks diversified sources of alpha across sector allocation, security selection, duration management and yield-curve strategy</li> </ul>	<ul style="list-style-type: none"> <li>Invests primarily in asset-backed, mortgage-backed, corporate, Treasury and government agency securities and maintains a dollar-weighted average effective portfolio duration of one year or less</li> <li>Generally invests less than 10% in below investment-grade securities*</li> <li>Allocates across fixed and floating-rate securities based on the manager's view on the potential direction of interest rates</li> </ul>	<ul style="list-style-type: none"> <li>Team-based approach focused by sector to extract value from each step of the process</li> <li>Federated Hermes' fixed-income philosophy and process has a 45-year heritage</li> <li>Portfolio managers have more than 60 years of combined experience and have worked at Federated Hermes for more than 27 years</li> </ul>

\* Per the prospectus, the fund is permitted to invest up to 35% in below-investment grade securities.

### Portfolio statistics

Weighted average effective maturity	1.1 Yrs.
Weighted average effective duration	1.0 Yrs.
Weighted average spread duration	1.7 Yrs.
Weighted average bond price	\$100.80

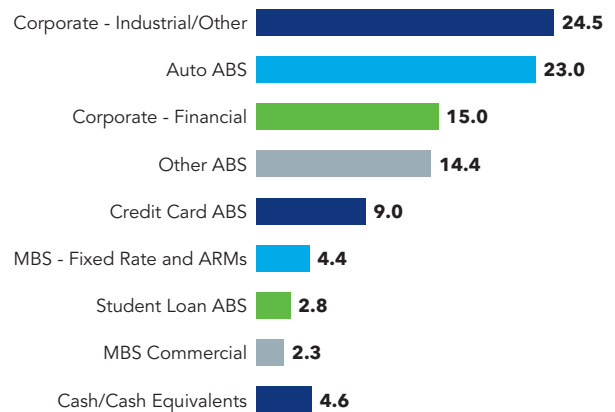
### Top holdings (%)

FHLMC 4920 FA, Floating Rate Note due 10/25/49 (Agency MBS)	0.9
FHLMC 4993 F, Floating Rate Note due 7/25/50 (Agency MBS)	0.9
Fontainebleau Miami Beach Trust, Class B, 3.447% due 12/10/36 (Commercial MBS)	0.8
Navient Student Loan Trust 2020-GA, Class A, 1.170% due 9/16/69	0.7
Nextgear Floorplan Master Owner Trust 2019-1A, Class B, 3.460% due 2/15/24 (Auto Floorplan ABS)	0.7
Santander Drive Auto Receivables Trust 2020-3, Class C, 1.120% due 1/15/26	0.7
Vodafone Group PLC, Floating Rate Note due 1/16/24	0.7
Volvo Financial Equipment Master Series 2017- A, Class A, Floating Rate Note due 11/15/22	0.7
Westpac Banking Corp., Floating Rate Note due 1/11/23	0.7
National Australia Bank, Floating Rate Note due 12/13/22	0.6
Total % of portfolio	7.4

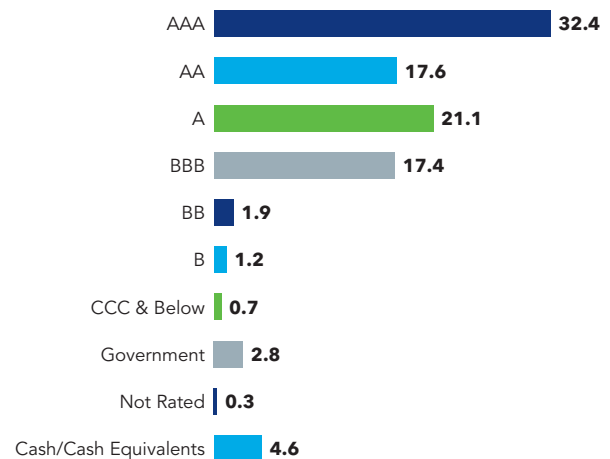
### Interest rate basis (%)

Floating rate	45.0
Fixed rate	55.0

### Sector weightings (%)



### 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

- Fund performance once again reflected tailwinds from unprecedented fiscal and monetary stimulus in reaction to the global coronavirus pandemic
- Short-term spread product continued its recovery in the third quarter, and investors sought the attractive returns offered by ultrashort and low duration products relative to cash alternatives
- Spread markets have now recovered to the point where struggles with the global battle against Covid-19 will lead to occasional reversals of the progress made over the past six months, but overall, a reasonable market tone persists

## Looking back

Fund performance in the third quarter represented a balance between continuing improvement in credit markets and the ever-present concerns related to the coronavirus. The massive fiscal and monetary response to the pandemic kept driving credit spreads tighter, though the lack of further fiscal stimulus caused corporate credit markets to retrace slightly in September. Nonetheless, the quarter was very positive for the product. As was the case in the second quarter, the stimulus packages initiated on a global basis drove investment outcomes more than the progression of the virus itself. During the first half of the quarter, the belief emerged that an active mitigation strategy had managed to contain the virus in many countries, including the U.S. In the second half, however, a resurgence in cases worldwide and the failure to produce another fiscal support package in the U.S. appeared to be weighing on markets, along with uncertainty generated by the upcoming U.S. presidential election.

Rates markets, particularly at the short-end of the yield curve, remained fairly quiet over the course of the third quarter. Yields declined by very small amounts, with the 2-, 3- and 5-year Treasury note yields falling by 2, 1 and 2 basis points, respectively, to quarter-end levels of 0.13%, 0.13% and 0.27%. With regard to credit spreads, the sharp reversal of spread widening that had begun at the very end of the first quarter, continued into the third quarter before finally experiencing a mild reversal in September. The spread (option-adjusted) on the Bloomberg Barclays 1-3 Year Credit Index, which began the quarter at 0.62%, recovered all the way to 0.44% at 8/31/20 before widening to 0.51% at 9/30/20. Meanwhile, the spread on the shorter duration corporates-only portion of the Bloomberg Barclays Short-Term Government/Corporate Index (BBSTGCI) tightened from 0.60% at 6/30/20 to 0.45% at 8/31/20, before ending the period at 0.50%. The spread on the Bloomberg Barclays ABS Index, however, tightened throughout the third quarter without a reversal, moving from 0.68% to 0.42% over the course of the reporting period.

Fund duration was maintained at the far end of its duration range during the quarter and stood at 0.99 years at 9/30/20. It remains longer than the 0.54 year duration of the fund's BBSTGCI competitive benchmark.

## Performance

Federated Hermes Ultrashort Bond Fund's return on IS Shares at net asset value (NAV) for the third quarter was 1.11%, versus a return on the ICE BofA 1-Year Treasury Bill Index of 0.08% and a return on the BBSTGCI of 0.10%.

### Performance contributors

- Orientation toward credit-sensitive securities in the light of significant credit spread tightening
- Sector selection performance contribution (76 basis points), reflecting the fund's tilt toward credit-sensitive securities relative to the benchmark. The third quarter also posted a strong security selection residual of 36 basis points as certain "off the run" sectors in which the fund maintains exposure (e.g., subordinate credit card and auto ABS) that had failed to tighten in line with the general investment-grade corporate and ABS markets in the second quarter caught up in the third

### Performance detractors

- The fund posted a slightly negative contribution from interest-rate positioning (-2 basis points), with a 5-basis-point positive contribution from duration, offset by a 7-basis-point deduction from yield-curve positioning

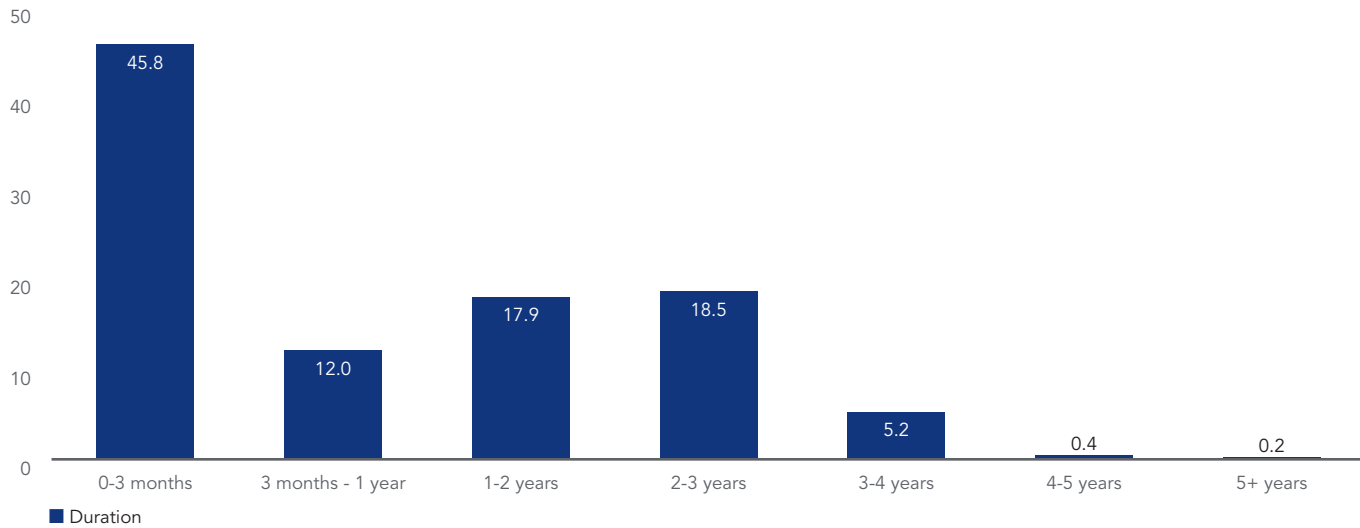
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## How we are positioned

Management continues to make few significant changes in the portfolio. The current objective is to maintain a slightly more credit-sensitive credit profile to take advantage of spreads which, despite the continued tightening which occurred in the third quarter, continue to offer modest value. Management is still attempting to take advantage of as many security-specific opportunities as possible with fund inflows, maturing securities and amortization payments. In both the corporate and securitized markets, however, spreads for the majority of credit-sensitive securities are now close to, and in a few limited cases even tighter than where they were at the onset of the pandemic. Robust credit analysis and value assessment therefore continue to be an important part of the portfolio allocation process as management continues the search for value.

*See disclosure section for important disclosures and definitions.*

## Duration profile (%)



## Risk statistics

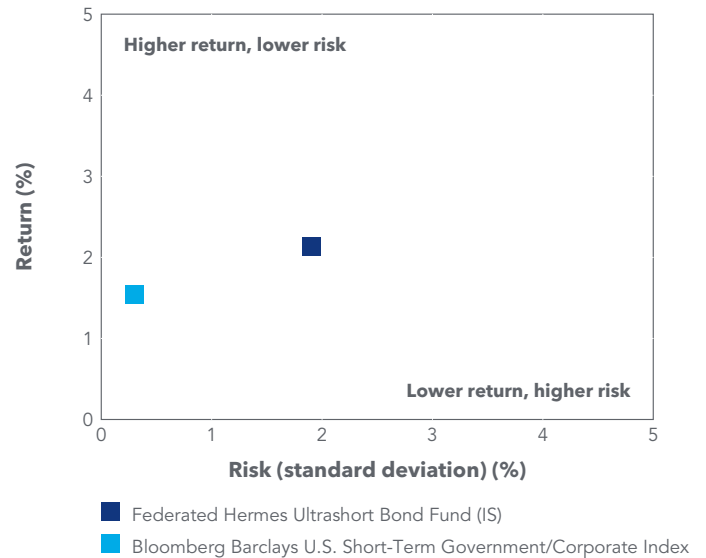
	3-year	5-year	7-year	10-year
<b>Standard deviation</b>	2.45	1.90	1.63	1.42
<b>Alpha</b>	2.03	1.66	1.50	1.53
<b>Sharpe ratio</b>	0.36	0.50	0.57	0.68

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. Bloomberg Barclays U.S. Short-Term Government/Corporate Index

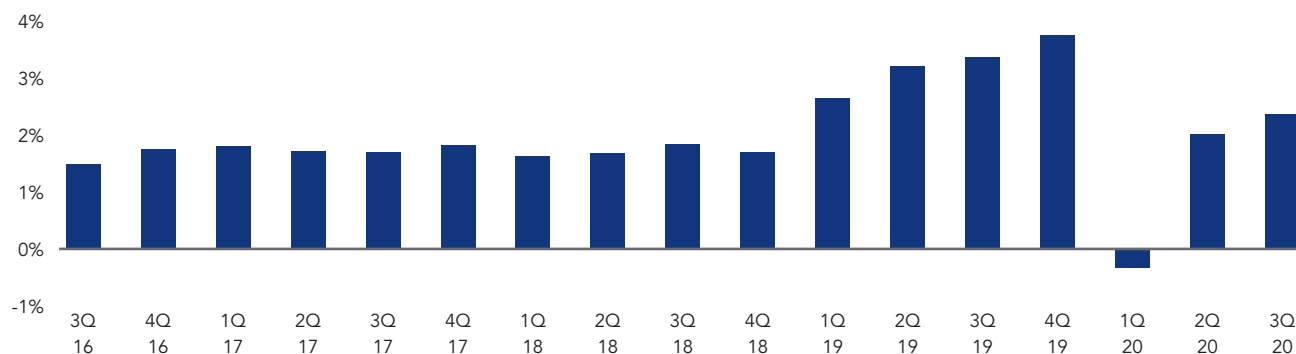
**See disclosure section for important definitions.**

## 5-year risk/return



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## 12-month rolling returns (IS)



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## Category rankings

### Morningstar Ultrashort Bond Category

		1-year	3-year	5-year	10-year
<b>IS Shares</b>	Morningstar Category % Rank	19	11	15	9
	Morningstar Category Rank	38 of 209 funds	16 of 168 funds	21 of 130 funds	9 of 60 funds
<b>A Shares</b>	Morningstar Category % Rank	35	53	64	54
	Morningstar Category Rank	67 of 209 funds	80 of 168 funds	80 of 130 funds	35 of 60 funds
<b>R6 Shares</b>	Morningstar Category % Rank	18	30	48	40
	Morningstar Category Rank	37 of 209 funds	–	–	–

### Lipper Ultra-Short Obligations Funds

		1-year	3-year	5-year	10-year
<b>IS Shares</b>	Lipper Classification % Rank	17	7	9	6
	Lipper Classification Rank	28 of 166 funds	8 of 132 funds	9 of 102 funds	3 of 51 funds
<b>A Shares</b>	Lipper Classification % Rank	31	46	57	50
	Lipper Classification Rank	51 of 166 funds	61 of 132 funds	58 of 102 funds	26 of 51 funds
<b>R6 Shares</b>	Lipper Classification % Rank	17	–	–	–
	Lipper Classification Rank	27 of 166 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 Ultrashort Bond Fund

As of June 29, 2020, the fund was renamed Federated Hermes Ultrashort 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") for A Shares 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 0.97% for R6 Shares, 0.95% for Institutional Shares, 0.87% for SS Shares and 0.79% for A Shares.

Prior to October 27, 1998, the fund was named Federated Limited Duration Government Fund with an investment concentration in government securities. The fund was reconfigured to maintain an ultrashort duration (one year or less) with a revised investment policy of purchasing both higher and lower quality fixed income securities.

The fund's A Shares commenced operations on October 8, 2002. For the period prior to the commencement of operations of the A Shares, the performance information shown is for the fund's Service Shares, adjusted to reflect the sales charges (for maximum offering price performance) that were applicable to the fund's A Shares until December 1, 2019 and expenses of the A Shares.

The fund's R6 Shares commenced operations on May 29, 2019. For the periods prior to the commencement of operations of the R6 Shares, the performance information shown is for the fund's Institutional Shares. The performance of the Institutional Shares has not been adjusted to reflect the expenses applicable to the R6 Shares since the R6 Shares have a lower expense ratio than the expense ratio of the Institutional Shares.

The fund may invest in Federated Hermes Portfolios that are not available to the public and provide for more effective diversification than is available through the purchase of individual securities. Where applicable, the fund holdings reflect exposure to underlying securities held by the portfolios.

### A word about risk

Mutual funds are subject to risks and fluctuate in value.

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

The fund is not a "money market" mutual fund. Some money market mutual funds attempt to maintain a stable net asset value through compliance with relevant Securities and Exchange Commission (SEC) rules. The fund is not governed by those rules, and its shares will fluctuate in value.

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.

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

### 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.

**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.

**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.

**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.

**Bloomberg Barclays U.S. Short-Term Government/Corporate Index** represents securities that have fallen out of the U.S. Government/Corporate Index because of the standard minimum one year maturity constraint. Sectors include treasuries, agencies, industrials, utilities and financial institutions.

Indexes are unmanaged and cannot be invested in directly.

### Ratings and rating agencies

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