

Federated Hermes Ultrashort Bond Fund

12/31/22

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 US Short-Term Government/Corporate Index

Morningstar category

Ultrashort Bond

Lipper classification

Ultra-Short Obligations Funds

Fund assets

\$4.3 billion

Ticker symbols

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

Key investment team

Randall Bauer, CFA
Nicholas Tripodes, CFA
Daniel Mastalski, CFA

Yields (%)

30-day yield (R6)	2.69
30-day yield (IS)	2.68
30-day yield (SS)	2.59
30-day yield (A)	2.53

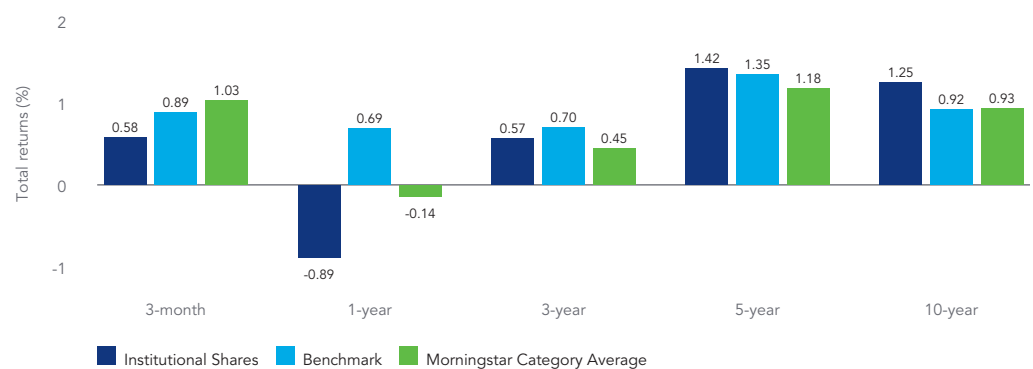
Fund description

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
R6 Shares	0.58	-0.88	-0.88	0.58	1.43	1.25	2.37	0.41	0.36
Institutional Shares	0.58	-0.89	-0.89	0.57	1.42	1.25	2.37	0.44	0.37
Service Shares	0.55	-0.99	-0.99	0.47	1.19	0.90	2.41	0.54	0.47
A Shares	0.54	-1.04	-1.04	0.42	1.11	0.81	2.22	0.61	0.52
Benchmark	0.89	0.69	0.69	0.70	1.35	0.92	-	-	-



Calendar year total returns (%)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Institutional Shares	-0.89	0.24	2.38	3.75	1.69	1.82	1.74	0.32	0.88	0.63
Benchmark	0.69	0.10	1.31	2.69	1.99	0.98	0.80	0.26	0.18	0.25
Morningstar Category Average	-0.14	0.20	1.34	3.08	1.61	1.44	1.31	0.21	0.31	0.50

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. 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 12/1/23 or the date of the fund's next effective prospectus.

Investment approach

Multiple alpha sources

- 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
- Seeks diversified sources of alpha across sector allocation, security selection, duration management and yield-curve strategy

Portfolio positioning

- 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
- Generally invests less than 10% in below investment-grade securities*
- Allocates across fixed and floating-rate securities based on the manager's view on the potential direction of interest rates

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 50-year heritage
- Portfolio managers have more than 65 years of combined experience and have worked at Federated Hermes for more than 28 years

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

Portfolio statistics

Weighted average effective maturity	0.8 yrs.
Weighted average effective duration	0.5 yrs.
Weighted average spread duration	1.2 yrs.
Weighted average bond price	\$96.32

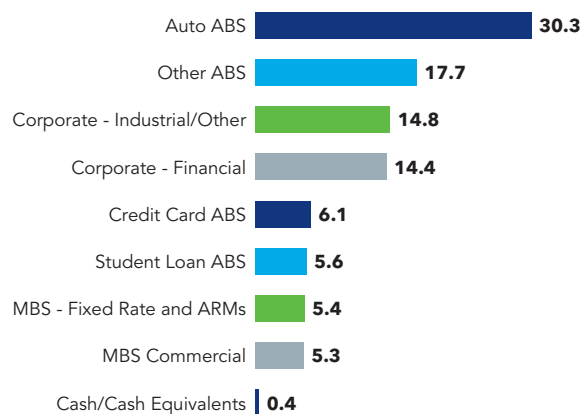
Top holdings (%)

Santander Drive Auto Receivables Trust 2021-1, Class D, 1.130% due 11/16/26	1.2
Santander Retail Auto Lease Trust 2021-B, Class D, 1.410% due 11/20/25	1.2
Trillium Credit Card Trust II 2021-2A, Class A, Floating Rate Note due 10/26/26	1.2
EverSource Energy, Floating Rate Note due 8/15/23	1.1
Nelnet Student Loan Trust 2021-DA, Class AFL, Floating Rate Note due 4/20/62	1.1
Santander Retail Auto Lease Trust 2021-C, Class D, 1.390% due 8/20/26	1.1
Truist Financial Corp., Floating Rate Note due 6/09/25	1.1
Dell Equipment Finance Trust 2021-1, Class D, 1.030% due 11/23/26	1.0
Navient Student Loan Trust 2021-BA, Class A, 0.940% due 7/15/69	1.0
Santander Drive Auto Receivables Trust 2021-3, Class B, 0.600% due 12/15/25	0.9
Total % of portfolio	10.9

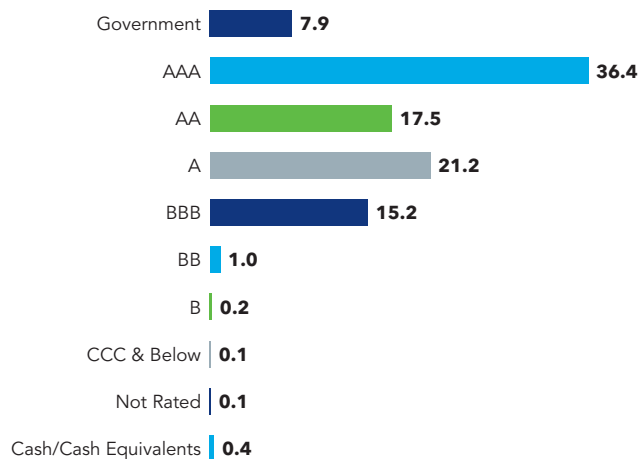
Interest rate basis (%)

Floating rate	41.8
Fixed rate	58.2

Sector weightings (%)



Quality breakdown¹ (%)



Quality breakdown does not apply to Equity or Cash/Cash Equivalents.

Portfolio composition is based on net assets at the close of business on 12/31/22 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

- Fund performance reflected the continued, albeit slower, upward movement in short-term market yields, with the 2-year Treasury note moving from 4.22% at 9/30/22 to 4.41% at 12/30/22
- Short-term credit results were mixed for the quarter. The spread (option-adjusted) on the Bloomberg 1-3 Year Corporate Index (B1-3CI) tightened from 0.88% at 9/30/22 to 0.73% at 12/30/22, while the spread on the Bloomberg ABS Index widened from 0.53% to 0.76% over the course of the reporting period. The asset-backed securities (ABS) spread widening proved greater than the corporate spread tightening and credit exposure detracted from performance
- The Federal Reserve (Fed) continued its tightening sequence in an aggressive fashion by raising the federal funds target rate by 75 basis points on November 2 followed by a 50 basis point increase on December 14. Additional hikes, as indicated by the most recent Summary of Economic Projections dot plot, are expected in early 2023

Looking back

Fund performance in the fourth quarter reflected the continued upward movement at the front of the yield curve with a modest decline in rates slightly farther out. While the 2-year Treasury note experienced a modest rise of 19 basis points, the 3-year note decreased by 3 basis points over the course of the period, from 4.25% at 9/30/22 to 4.22% at 12/30/22. The Fed continued its path of raising rates while still communicating the need to bring inflation back to levels consistent with its 2% mandate. Although higher front-end yields resulted in the price decline of shorter-dated maturities, modestly lower rates slightly further out the yield curve allowed for preservation of the fund's capital value as the net asset value was unchanged from the beginning of the quarter. Credit markets continued to be quite volatile. Spreads on short corporate bonds (B1-3CI) at quarter end were 15 basis points tighter, while ABS spreads (Bloomberg ABS Index) widened by 23 basis points.

Fund duration at quarter-end was 0.45 years, shorter than both the 0.64 year duration at 9/30/22, and the duration of the fund's Bloomberg Short-Term Government/Corporate Index (BSTGCI) competitive benchmark (0.53 years). Although the Fed continues to raise rates, management has maintained the fund's duration at levels slightly longer than earlier in the year in the anticipation that the fed funds rate will likely reach peak level sometime early in 2023 and that short-term market yields may be near their highs. But duration is still shorter than the midpoint of the fund's normal 0.4–1.0 year duration range.

Performance

Federated Hermes Ultrashort Bond Fund's return on IS Shares at net asset value (NAV) for the fourth quarter was 0.58%, versus returns on the ICE Bank of America Merrill Lynch 1-Year Treasury Bill Index of 0.65% and the BSTGCI of 0.89%. The average return for the Lipper Ultrashort Bond category was 0.97%.

Performance contributors

- Yield curve positioning (i.e., holding certain securities with maturities either shorter or longer than that of the benchmark in a rising yield environment), which added 10 basis points to performance relative to the benchmark, provided largely by the fund's more than 40% allocation to floating-rate securities
- Security selection, which added 12 basis points from excess return

Performance detractors

- Duration positioning long relative to its index, which provided a negative contribution of 11 basis points
- Sector selection detracted 33 basis points. The outcome reflected the fund's bias toward out of index credit-sensitive securities, particularly ABS, which comprise a majority of the benchmark

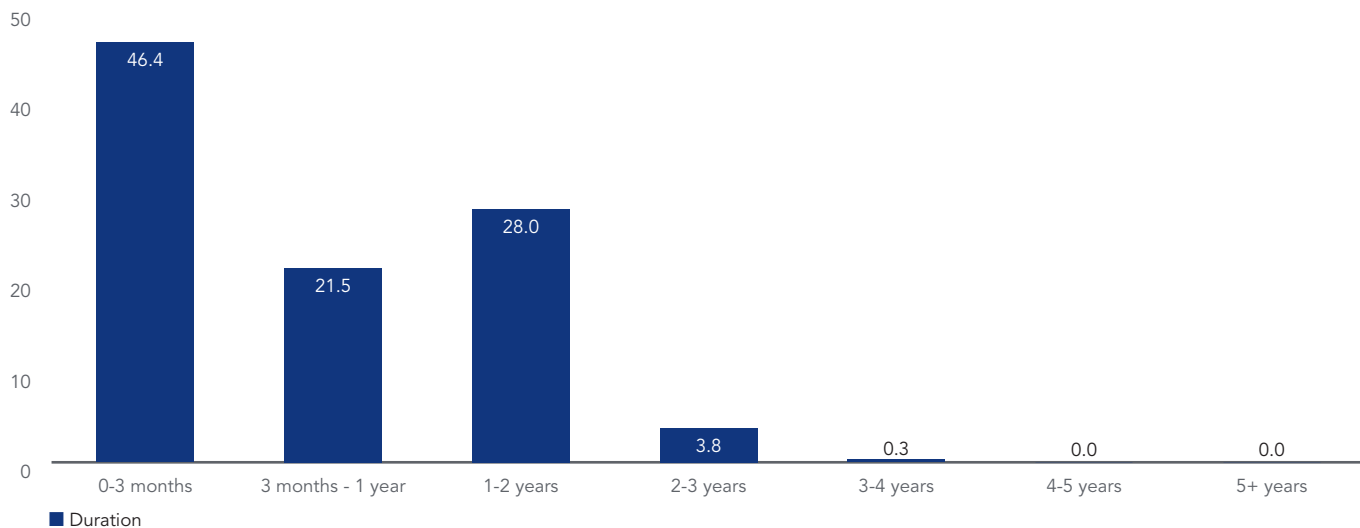
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How we are positioned

The fund's investment philosophy reflects the belief that in all but the most difficult of environments, the income earned with a modestly credit-oriented portfolio should more than offset capital fluctuation and provide a return which exceeds that of a cash investment. The 2022 calendar year was one of those most difficult environments, as evidenced by the fund's inability to best similar-duration Treasury-type indexes. While the fund produced a positive total return during the quarter, it underperformed a non-credit comparable, the Treasury component of the BSTGCI (0.84% return). Despite the recent credit underperformance, the general overweight to credit remains, though investments having lower-credit quality continue to be reduced. Interest-rate sensitivity is being maintained at levels short of the general fund midpoint of 0.4-1.0 years (though long of the benchmark index) in light of continued expected increases in the federal funds target rate. Spreads have widened over the past 12 months and at this point offer fairly attractive carry (i.e., yield income) for the portfolio.

See *disclosure section for important disclosures and definitions*.

Duration profile (%)



Risk statistics

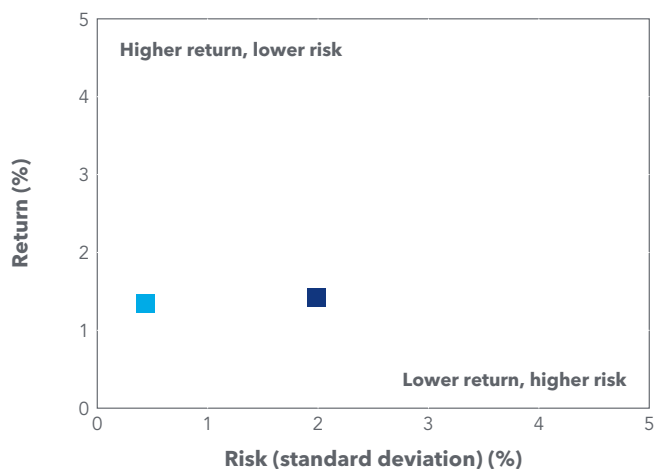
	3-year	5-year	7-year	10-year
Standard deviation	2.52	1.99	1.68	1.44
Alpha	-0.22	0.09	0.35	0.39
Sharpe ratio	-0.11	0.04	0.22	0.68

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. Bloomberg US Short-Term Government/Corporate Index

See disclosure section for important definitions.

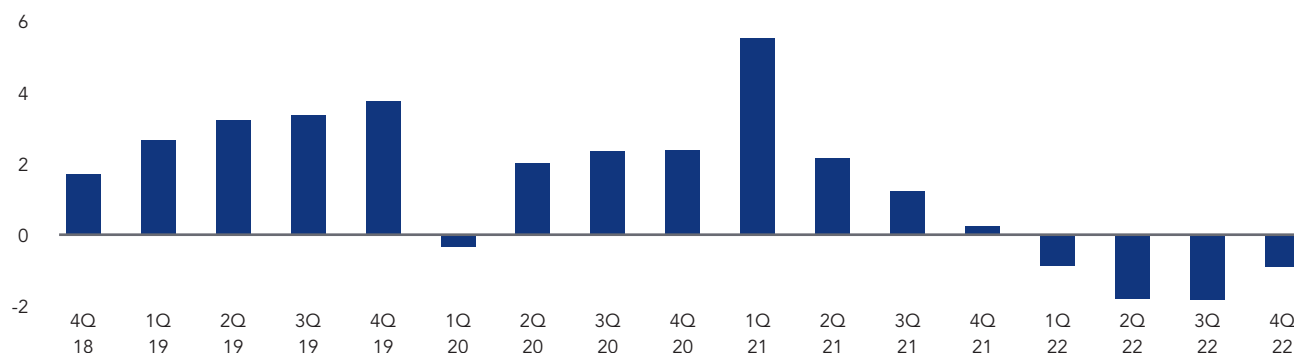
5-year risk/return



	Risk (%)	Return (%)
■ Federated Hermes Ultrashort Bond Fund (IS)	1.99	1.42
■ Bloomberg US Short-Term Government/Corporate Index	0.44	1.35

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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
R6 Shares	Morningstar Category % Rank	72	49	-	-
	Morningstar Category Rank	169 of 237 funds	94 of 218 funds	-	-
IS Shares	Morningstar Category % Rank	72	50	31	21
	Morningstar Category Rank	170 of 237 funds	96 of 218 funds	49 of 180 funds	21 of 102 funds
A Shares	Morningstar Category % Rank	80	67	71	66
	Morningstar Category Rank	186 of 237 funds	141 of 218 funds	121 of 180 funds	66 of 102 funds

Lipper Ultra-Short Obligations Funds		1-year	3-year	5-year	10-year
R6 Shares	Lipper Classification % Rank	81	50	-	-
	Lipper Classification Rank	138 of 170 funds	80 of 159 funds	-	-
IS Shares	Lipper Classification % Rank	82	51	28	19
	Lipper Classification Rank	139 of 170 funds	81 of 159 funds	34 of 124 funds	13 of 71 funds
A Shares	Lipper Classification % Rank	88	71	73	69
	Lipper Classification Rank	149 of 170 funds	113 of 159 funds	91 of 124 funds	49 of 71 funds

Past performance is no guarantee of future results. Rankings are based on total return and do not take sales charges into account.

¹The 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 2.64% for R6 Shares, 2.60% for Institutional Shares, 2.50% for SS Shares and 2.41% 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.

Federated Hermes Ultrashort Bond Fund

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 US Short-Term Government/Corporate Index represents securities that have fallen out of the US 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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