

# Federated Ultrashort Bond Fund

4Q  
2019

12/31/19

## 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

\$4.2 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) 2.16  
30-Day Yield (IS) 2.15  
30-Day Yield (SS) 2.06  
30-Day Yield (A) 2.00

## Fund Description

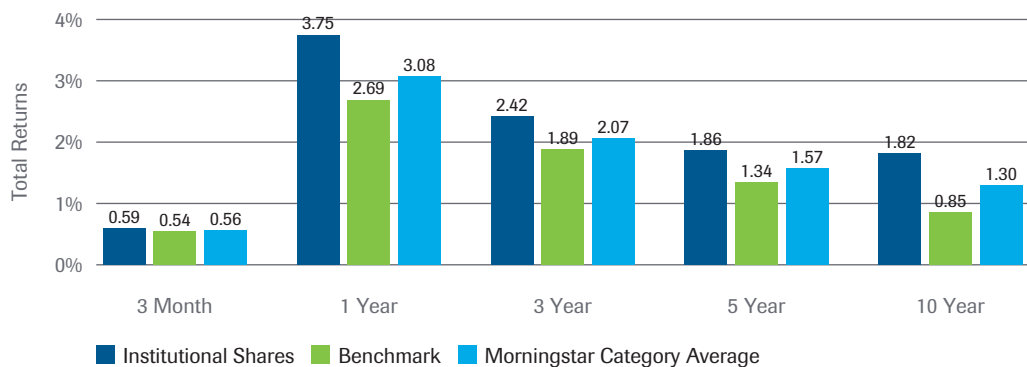
The fund seeks total return consistent with current income by investing primarily in a diversified portfolio of investment-grade debt, including asset- and mortgage-backed, corporate, Treasury and government-agency securities. Its portfolio is invested in sectors that offer the best risk/return balance,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

## Performance

### Average Annual Total Returns (%)

Performance shown is before tax.

	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	15 Year	Since Inception	Expense Ratio*	
									Before Waivers	After Waivers
R6 Shares	0.60	3.76	3.76	2.42	1.86	1.83	2.31	2.65	0.42	0.36
Institutional Shares	0.59	3.75	3.75	2.42	1.86	1.82	2.31	2.64	0.45	0.37
SS Shares	0.51	3.32	3.32	1.97	1.41	1.37	1.86	2.67	0.56	0.47
A Shares	0.38	3.22	3.22	1.87	1.29	1.27	1.75	2.47	0.61	0.52
Benchmark	0.54	2.69	2.69	1.89	1.34	0.85	1.78	-	-	-



### Calendar Year Returns (%)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Institutional Shares	3.75	-0.86	4.40	4.96	-0.16	5.29	-0.87	6.58	6.28	7.35
Benchmark	2.69	1.99	0.98	0.80	0.26	0.18	0.25	0.36	0.37	0.68
Morningstar Category Average	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.

\* 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

- The ultrashort bond investment process is integrated with Federated’s 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’s fixed income philosophy and process has a 45-year heritage
- Portfolio Managers have more than 60 years of combined experience and have worked at Federated for more than 27 years

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

## Portfolio Statistics

Weighted Average Effective Maturity	1.0 Yrs.
Weighted Average Effective Duration	0.8 Yrs.
Weighted Average Spread Duration	1.5 Yrs.
Weighted Average Bond Price	\$101.97

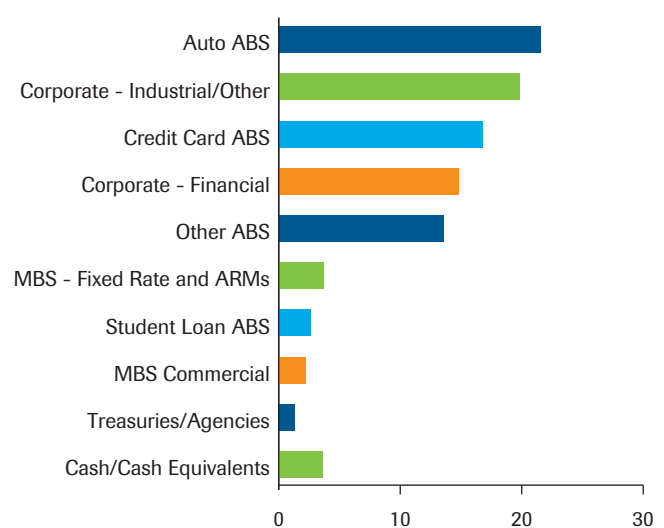
## Top Holdings (%)

Fontainebleau Miami Beach Trust 2019-FBLU, Class B, 3.447%, due 12/10/36 (Commercial MBS)	0.9
Nextgear Floorplan Master Owner Trust 2019-1A, Class B, 3.460% due 2/15/24 (Auto Floorplan ABS)	0.8
PNC Bank N.A., Floating Rate Note due 12/09/22	0.8
Volvo Financial Equipment Master Series 2017-A, Class A, Floating Rate Note due 11/15/22	0.8
Westpac Banking Corp., Floating Rate Note due 1/11/23	0.7
Cards II Trust 2019-1A, Class A, Floating Rate Note due 5/15/24 (Credit Card ABS)	0.6
Cosmopolitan Hotel Trust 2017-CSMO, Class B, Floating Rate Note due 11/15/36 (CMBS)	0.6
DLL Securitization Trust 2019-MA2, Class A3, 2.340% due 9/20/23 (Equipment Lease ABS)	0.6
Drive Auto Receivables Trust 2019-1, Class A3, 3.180% due 10/17/22	0.6
Cards II Trust 2018-1A, Class A, Floating Rate Note due 4/17/23 (Credit Card ABS)	0.5
<b>Total % of Portfolio</b>	<b>6.9</b>

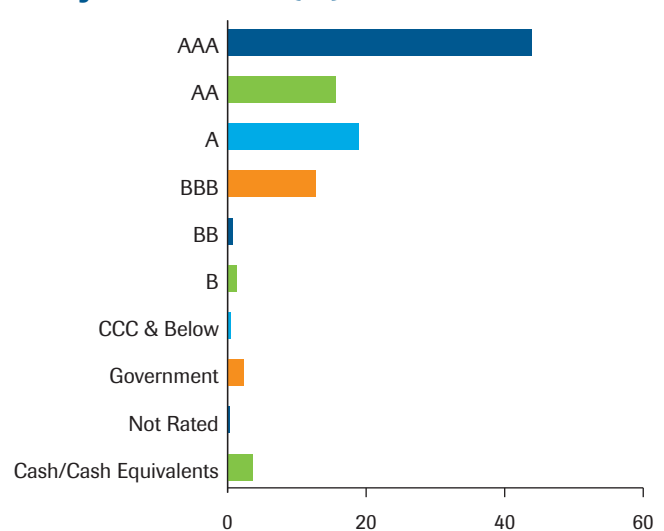
## Interest Rate Basis (%)

Fixed Rate	49.5
Floating Rate	50.5

## Sector Weightings (%)



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



Portfolio composition is based on net assets at the close of business on 12/31/19 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 posted reasonable performance as market yields re-established a more normal positively sloped yield curve relationship
- Short-term spread product results were mixed according to index statistics, but market action appeared to show a strong finish to 2019
- Global growth and geopolitical concerns appeared to move to the back burner as a risk-on mentality emerged during the fourth quarter

## Looking Back

The final quarter of 2019 might be thought of as the most “well-behaved” of the year. Partial resolution of both trade frictions between the U.S. and China and the Brexit outcome (or at least the perception thereof), helped dampen volatility in both equity and fixed-income markets. Though growth in Europe remains lackluster, the potential for further meaningful interest-rate reductions now appears limited, as the failure of a decade of negative interest rates to spur meaningful economic progress is being internalized both by regulators and the markets. The apparent change in market perspective has caused rates to stabilize, with a re-establishment of normal yield curve relationships. At year-end, the U.S. yield curve had resumed its normal positive slope (i.e., progressively higher yields for progressively longer maturities), whereas in the third quarter, the yield curve had been inverted at various points. Prolonged periods of inversion are generally thought to be leading indicators of recession.

The end of the yield curve inversion was caused by lower rates at the short end of the curve coupled with higher ones at the long end. Looking at actual interest-rate levels for the fourth quarter, the yield on the 1-year Treasury bill and 2-year Treasury note decreased to 1.58% and 1.57%, respectively, from 1.76% and 1.62%, respectively. The 5-year point of the Treasury curve actually increased, however, from 1.55% to 1.69%, and the 10-year Treasury note yield increased from 1.67% to 1.92%. Short-term credit spreads were mixed for the quarter. Though the spread (option-adjusted) on the Bloomberg Barclays 1-3 Year Credit Index tightened from 0.41% at 9/30/19 to 0.36% at 12/31/19, the spread on the shorter duration corporates-only portion of the Bloomberg Barclays Short-Term Government /Corporate Index (BBSTGCI) actually widened from 0.35% at 9/30/19 to 0.42% at 12/31/19, as did the spread on the Bloomberg Barclays ABS Index, which widened from 0.37% at 9/30/19 to 0.44% at year-end.

Fund duration was reduced during the quarter from the 0.96 years at 9/30/19 to 0.84 years at 12/31/19, though it remains longer than the 0.54 year duration of the fund's BBSTGCI competitive benchmark.

## Performance

Federated Ultrashort Bond Fund's return on IS Shares at net asset value (NAV) for the fourth quarter was 0.59%, versus a return of 0.54% on the Lipper Ultrashort Bond category average, a return on the ICE Bank of America Merrill Lynch 1-Year Treasury Bill Index of 0.59% and a return on the BBSTGCI of 0.54%.

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## Performance Contributors

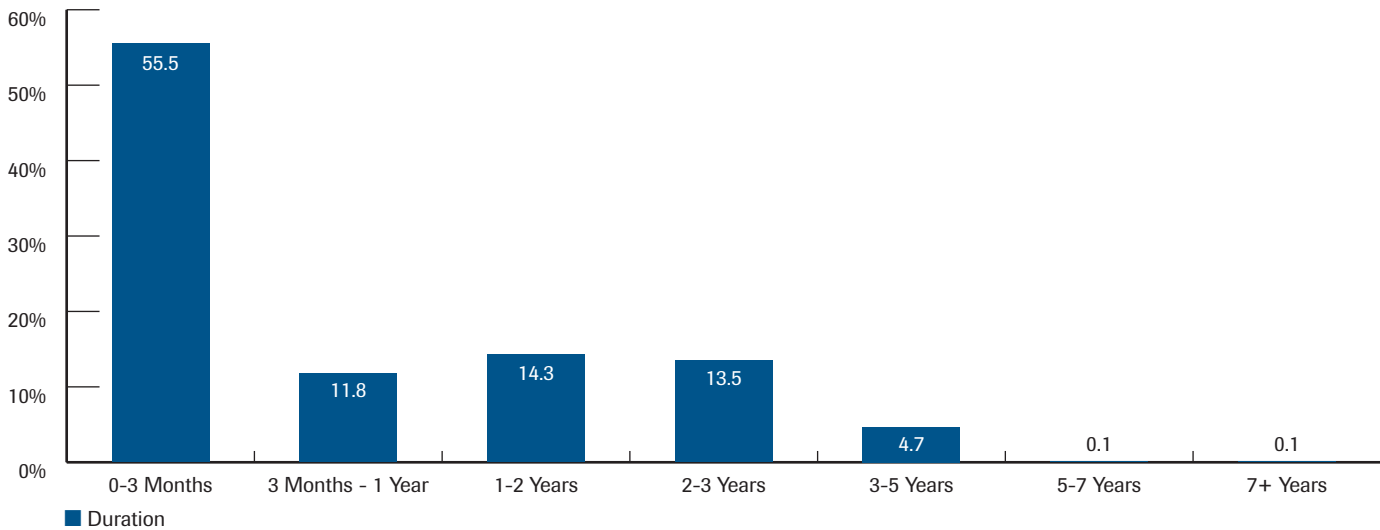
- Orientation toward credit sensitive securities provided carry for the portfolio, and this additional yield provided the fund with a modest amount of alpha relative to the less-credit sensitive BBSTGCI
- Mixed credit spreads meant the portfolio's credit orientation benefitted from the carry generated by credit securities, though it was slightly offset by spreads, which on average were slightly weaker in the part of the universe where the fund generally invests

## How We Are Positioned

Management believes that 2020 will be a year in which neither duration nor yield-curve positioning are likely to provide the lion's share of return, and that it will be carry over and above non-credit and near-zero duration options, which will provide investors with alpha in the low duration space. It appears the Federal Reserve will neither raise nor lower interest rates in the coming year, though management retains a slight portfolio bias toward lower rather than higher. As long as inflation statistics remain well behaved, there seems a low probability that short-term rates will finish 2020 meaningfully higher than they are now. With regard to credit spreads in the neighborhood of all-time tightness means the likelihood of substantially tighter levels from here is low. The slow upgrade of the fund's overall credit profile, which has been going on for several years, now provides a solid investment-grade portfolio which will still be able to benefit (through carry and any modest tightening which might occur) from the U.S. economy's continuing reasonable yet unspectacular long-term recovery, while still providing downside defense at times should inevitable market volatility cause short to medium-term dislocations.

*See disclosure section for important disclosures and definitions.*

### Duration Profile



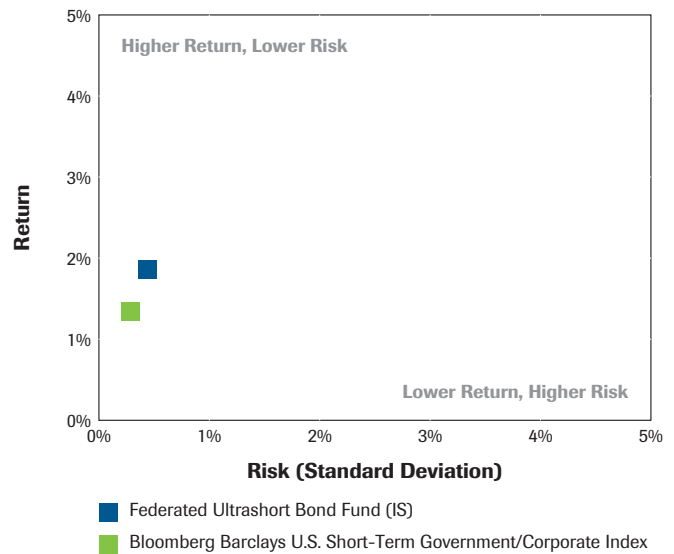
### Risk Statistics

	3 Year	5 Year	7 Year	10 Year
Standard Deviation	0.41	0.44	0.52	0.61
Alpha	0.48	0.43	0.42	0.61
Sharpe Ratio	1.69	1.70	1.42	0.68

Sources: Federated Investors, Morningstar, Inc.  
Fund vs. Bloomberg Barclays U.S. Short-Term Government/Corporate Index

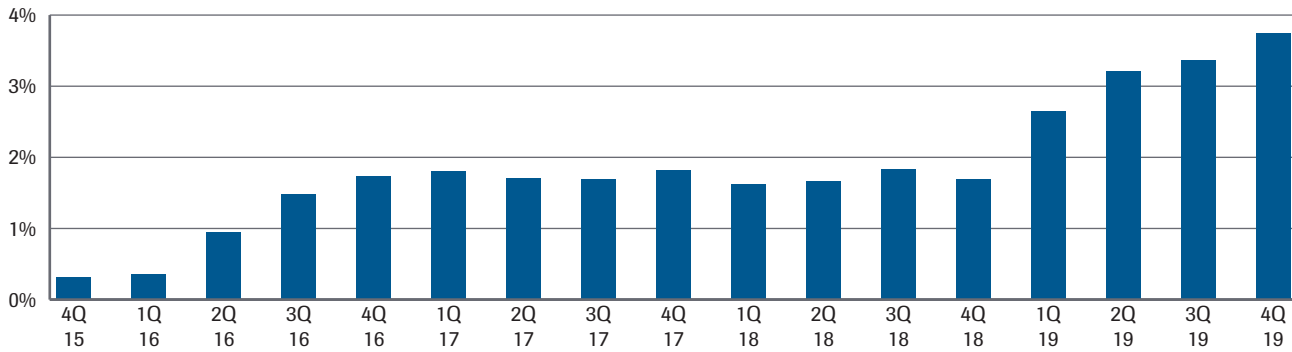
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### 5-Year Risk/Return



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## 12-Month Rolling Returns (IS)



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## Category Rankings

### Morningstar Ultrashort Bond Category

IS Shares	1 Year	3 Year	5 Year	10 Year
Morningstar Category % Rank	15	17	20	19
Morningstar Category Rank	26 of 201 Funds	23 of 161 Funds	27 of 127 Funds	11 of 58 Funds
A Shares	1 Year	3 Year	5 Year	10 Year
Morningstar Category % Rank	39	73	78	54
Morningstar Category Rank	69 of 201 Funds	115 of 161 Funds	98 of 127 Funds	33 of 58 Funds
R6 Shares	1 Year	3 Year	5 Year	10 Year
Morningstar Category % Rank	22	56	67	49
Morningstar Category Rank	-	-	-	-

### Lipper Ultra-Short Obligations Funds

IS Shares	1 Year	3 Year	5 Year	10 Year
Lipper Classification % Rank	6	4	11	3
Lipper Classification Rank	9 of 163 Funds	4 of 129 Funds	11 of 100 Funds	1 of 48 Funds
A Shares	1 Year	3 Year	5 Year	10 Year
Lipper Classification % Rank	28	67	70	47
Lipper Classification Rank	45 of 163 Funds	87 of 129 Funds	70 of 100 Funds	23 of 48 Funds
R6 Shares	1 Year	3 Year	5 Year	10 Year
Lipper Classification % Rank	-	-	-	-
Lipper Classification Rank	-	-	-	-

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") 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 2.11% for R6, 2.07% for IS, 1.94% for SS and 1.93% 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 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

**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.

**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 family of funds may not be comparable to other funds outside of the Federated 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.

### Ratings and Rating Agencies

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This must be preceded or accompanied by a prospectus.