

# Federated Hermes Corporate Bond Fund

6/30/24

## Fund facts

### Performance inception date

6/28/95

### Benchmark 1

Bloomberg US Credit Index

### Benchmark 2

75% Bloomberg US Credit Index/25% Bloomberg US Corporate High Yield 2% Issuer Capped Index

### Morningstar category

Corporate Bond

### Lipper classification

Corporate Debt Funds BBB-Rated

### Fund assets

\$1.1 billion

### Ticker symbols

R6 Shares - FDBLX

Institutional Shares - FDBIX

A Shares - FDBAX

C Shares - FDBCX

F Shares - ISHIX

### Key investment team

Brian Ruffner

Bryan Dingle, CFA

Mark Durbiano, CFA

Anthony Venturino, CFA

Christopher McGinley

### Yields (%)

30-day yield (R6) 4.86

30-day yield (IS) 4.84

30-day yield (A) 4.37

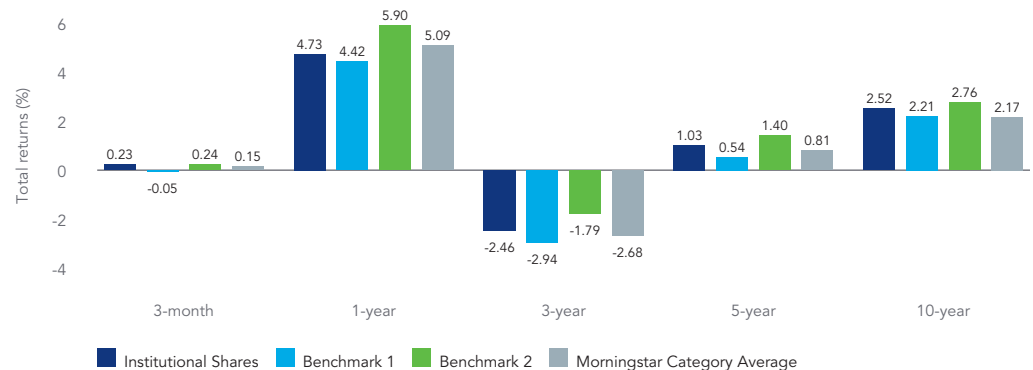
## Fund description

The fund seeks to provide a high level of current income and to preserve capital by investing in a diversified portfolio of fixed-income securities. It invests primarily in investment-grade corporate bonds, but also may invest up to 35% of its portfolio assets in lower-rated high-yield bonds.

## Average annual total returns (%)

Performance shown is before tax.

|                             | 3-month | YTD   | 1-year | 3-year | 5-year | 10-year | Since inception | Expense ratio*<br>Before waivers | After waivers |
|-----------------------------|---------|-------|--------|--------|--------|---------|-----------------|----------------------------------|---------------|
| <b>R6 Shares</b>            | 0.11    | 0.11  | 4.62   | -2.47  | 1.05   | 2.48    | 5.12            | 0.66                             | 0.59          |
| <b>Institutional Shares</b> | 0.23    | 0.10  | 4.73   | -2.46  | 1.03   | 2.52    | 5.17            | 0.76                             | 0.61          |
| <b>A Shares (NAV)</b>       | 0.05    | -0.14 | 4.35   | -2.74  | 0.78   | 2.27    | 5.04            | 1.01                             | 0.86          |
| <b>A Shares (MOP)</b>       | -4.47   | -4.61 | -0.32  | -4.21  | -0.15  | 1.80    | 4.88            | 1.01                             | 0.86          |
| <b>Benchmark 1</b>          | -0.05   | -0.46 | 4.42   | -2.94  | 0.54   | 2.21    | -               | -                                | -             |
| <b>Benchmark 2</b>          | 0.24    | 0.30  | 5.90   | -1.79  | 1.40   | 2.76    | -               | -                                | -             |



## Calendar year total returns (%)

|                                     | 2023 | 2022   | 2021  | 2020 | 2019  | 2018  | 2017 | 2016 | 2015  | 2014 |
|-------------------------------------|------|--------|-------|------|-------|-------|------|------|-------|------|
| <b>Institutional Shares</b>         | 7.93 | -14.35 | 0.18  | 9.07 | 14.27 | -2.84 | 7.05 | 8.44 | -1.77 | 5.93 |
| <b>Benchmark 1</b>                  | 8.18 | -15.26 | -1.08 | 9.35 | 13.80 | -2.11 | 6.18 | 5.63 | -0.77 | 7.53 |
| <b>Benchmark 2</b>                  | 9.49 | -14.21 | 0.48  | 8.83 | 13.96 | -2.08 | 6.51 | 8.43 | -1.66 | 6.25 |
| <b>Morningstar Category Average</b> | 8.33 | -15.15 | -0.76 | 9.24 | 13.03 | -2.49 | 5.79 | 6.51 | -1.39 | 6.93 |

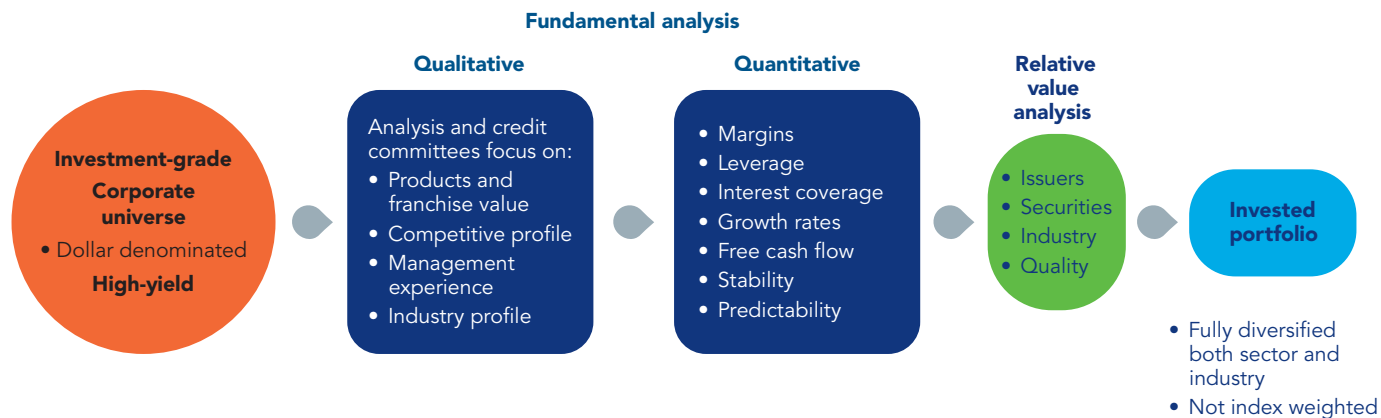
Performance quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than what is stated. To view performance current to the most recent month-end, and for after-tax returns, contact us or visit [FederatedHermes.com/us](https://FederatedHermes.com/us). Maximum offering price figures reflect the maximum sales charges 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 2/1/25 or the date of the fund's next effective prospectus.



Not FDIC Insured • May Lose Value • No Bank Guarantee

## Investment process



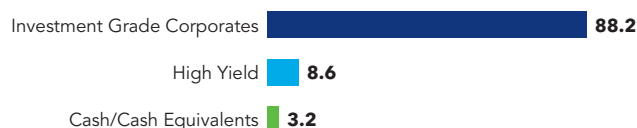
## Portfolio statistics

|                                     |          |
|-------------------------------------|----------|
| Weighted average effective maturity | 8.9 yrs. |
| Weighted average effective duration | 5.9 yrs. |
| Weighted average coupon             | 4.16%    |
| Weighted average yield to maturity  | 5.63%    |
| Weighted average bond price         | \$92.29  |

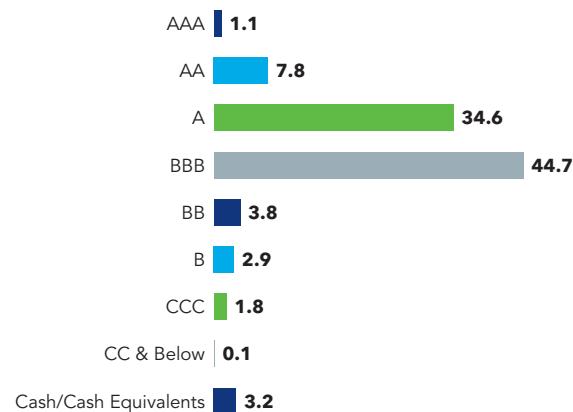
## Top holdings (%)

|   |     |
|---|-----|
| U.S. Treasury Note, 4.125% due 11/15/32       | 3.1 |
| U.S. Treasury Bond, 4.750% due 11/15/53       | 0.8 |
| Goldman Sachs Group, Inc., 3.814% due 4/23/29 | 0.7 |
| Honeywell International, 5.000% due 2/15/33   | 0.7 |
| Johnson & Johnson, 1.300% due 9/01/30         | 0.7 |
| JPMorgan Chase & Co., 3.875% due 9/10/24      | 0.7 |
| JPMorgan Chase & Co., 5.012% due 1/23/30      | 0.7 |
| Bank of New York Mellon, 3.992% due 6/13/28   | 0.6 |
| Morgan Stanley, 3.772% due 1/24/29            | 0.6 |
| Wells Fargo & Co., 3.908% due 4/25/26         | 0.6 |
| Total % of portfolio                          | 9.2 |

## Sector weightings (%)



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



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

Portfolio composition is based on net assets at the close of business on 6/30/24 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

- Federal Reserve (Fed) reduces rate cut expectations
- Slightly higher U.S. Treasury yields
- Positive contribution from security selection

## Looking back

The on-going push-pull of the U.S. economy continued in the second quarter, as economic data accelerated and then softened. While still good, the frothy labor market is showing signs of cooling, possibly nearing an inflection point, according to Federal Reserve Bank of San Francisco President Mary Daly in late June. While still historically low, the unemployment rate rose to 4.0% in June for the first time since January 2022, up from 3.7% at year-end 2023. After rising in the first quarter, consumer inflation data rolled over in May, and core inflation has shown a steady decline year-to-date. Total housing costs continue to increase, but services prices have cooled a bit. The Fed noted this improvement at its June meeting, citing modest further progress toward its 2% inflation objective. In its June economic projections, the Fed still sees 2.1% growth in 2024 and 2.0% in 2025 and 2026, but it nudged slightly higher its inflation outlook in 2024 and 2025 and unemployment in 2025 and 2026. More important for the markets, the Fed reduced the number of fed funds cuts it expects in 2024 from three to one, while adding one to next year. All in, the Fed sees economic activity continuing at a solid pace, with strong job gains and a low unemployment rate.

Though ending only modestly higher than March 31 levels, Treasury yields spent most of the second quarter well above these levels. Following economic data, markets continued to reprice Fed rate cut expectations. Treasury yields followed suit: the 10-year Treasury yield traded in a range from 4.20% to 4.70%, ending at 4.40%. According to Bloomberg data, credit posted a very slight negative total return in the quarter, while all other fixed-income sectors had modest positive returns, and credit, mortgage-backed securities and the aggregate index slightly underperformed comparable duration Treasuries.

## Performance

Federated Hermes Corporate Bond Fund R6 Shares returned 0.11% at net asset value (NAV) for the three months ended June 30, 2024. That compares with the Bloomberg US Credit Index return of -0.05% and the Bloomberg US High Yield 2% Issuer Capped Index return of 1.09%. The blended benchmark, consisting of 25% of the Bloomberg US Credit Index and 75% of the Bloomberg US High Yield 2% Issuer Capped Index, returned 0.24%. The fund's total return for the period also reflected actual cash flows, transaction costs and other expenses that were not reflected in the return of the blended benchmark.

### Performance contributors

- Positive security selection in the following industries: communication, banking, technology and utilities
- Specific issuers held by the portfolio that outperformed the blended benchmark included: Comcast, Citigroup, JPMorgan, Bank of America and Goldman Sachs

### Performance detractors

- Underweight position to the high-yield asset class
- Specific issuers held by the portfolio that underperformed the blended benchmark included: BP plc, Amazon, Microsoft, AT&T and Bausch Health Companies

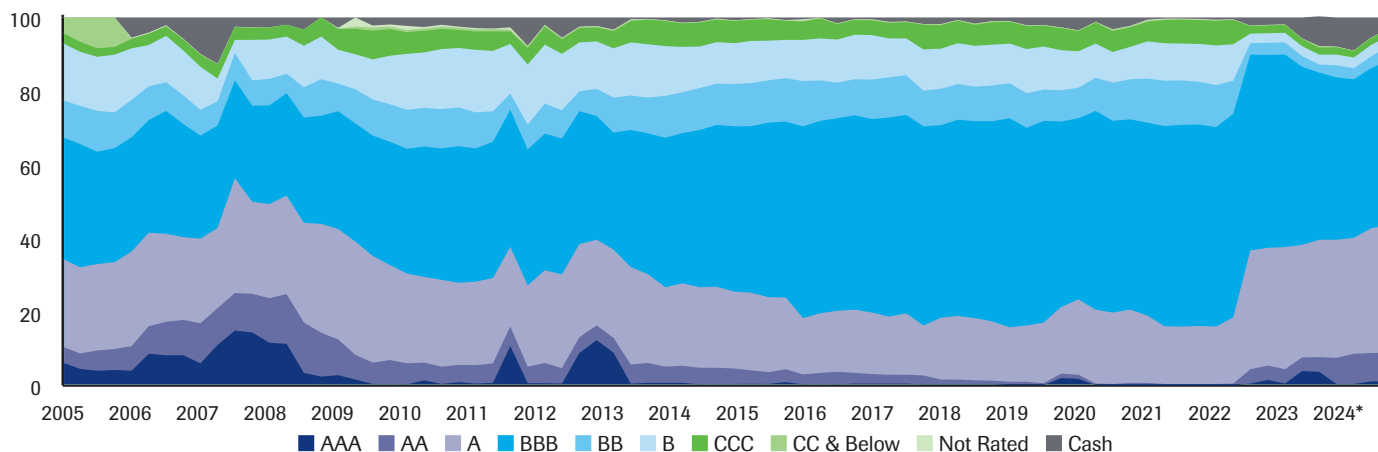
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## How we are positioned

We exited the quarter maintaining both an underweight position to the high-yield asset class, and the reduced exposure to cyclical end markets. The fund ended the period targeting a neutral duration position relative to the benchmark. The portfolio remains committed to adjust the overall positioning in response to changes in valuation and credit quality.

See *disclosure section for important disclosures and definitions*.

## Historical credit quality (%)<sup>1</sup>



\* As of 6/30/24

Portfolio composition is based on net assets at the close of business on the date indicated above 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.

## Risk statistics

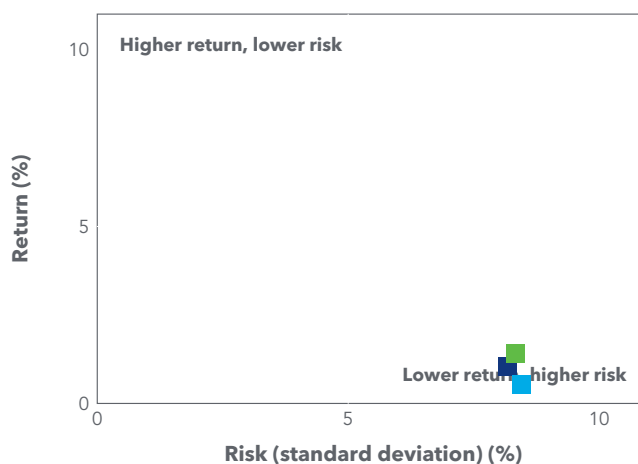
|                           | 3-year | 5-year | 7-year | 10-year |
|---------------------------|--------|--------|--------|---------|
| <b>Standard deviation</b> | 8.24   | 8.18   | 7.14   | 6.36    |
| <b>Alpha</b>              | -0.07  | 0.40   | 0.25   | 0.33    |
| <b>Beta</b>               | 0.92   | 0.95   | 0.95   | 0.95    |
| <b>Up capture ratio</b>   | 89.75  | 94.10  | 92.81  | 94.38   |
| <b>Down capture ratio</b> | 88.55  | 89.45  | 88.26  | 88.53   |
| <b>Sharpe ratio</b>       | -0.69  | -0.15  | -0.03  | 0.14    |

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. Bloomberg US Credit Index

**See disclosure section for important definitions.**

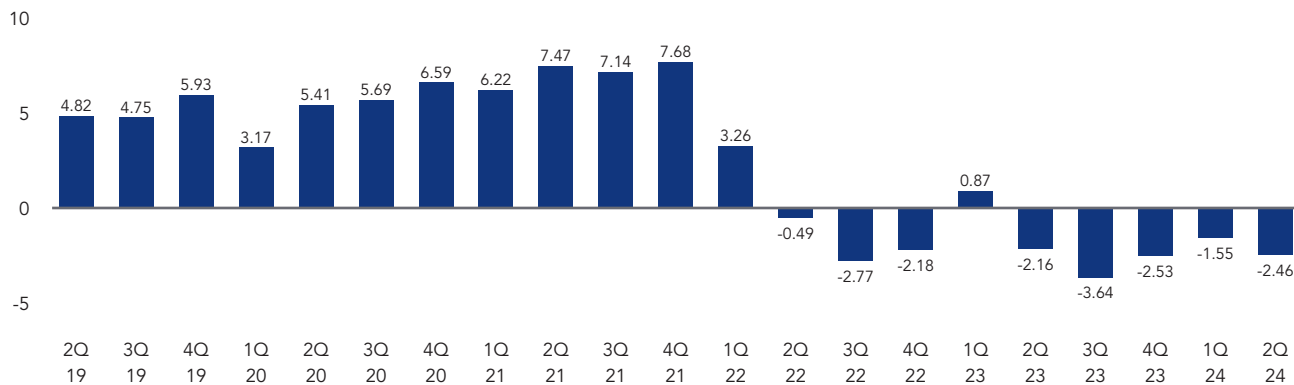
## 5-year risk/return



|  | Risk (%) | Return (%) |
|--|----------|------------|
| Federated Hermes Corporate Bond Fund (IS)  | 8.18     | 1.03       |
| Bloomberg US Credit Index  | 8.46     | 0.54       |
| 75% Bloomberg US Credit Index/25% Bloomberg US High Yield 2% Issuer Capped Index | 8.33     | 1.40       |

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



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## Category rankings

| Morningstar Corporate Bond Category |                             | 1-year           | 3-year          | 5-year          | 10-year        |
|-------------------------------------|-----------------------------|------------------|-----------------|-----------------|----------------|
| <b>R6 Shares</b>                    | Morningstar Category % Rank | 69               | 35              | 24              | -              |
|                                     | Morningstar Category Rank   | 128 of 191 funds | 47 of 179 funds | 32 of 161 funds | -              |
| <b>IS Shares</b>                    | Morningstar Category % Rank | 65               | 35              | 24              | 19             |
|                                     | Morningstar Category Rank   | 122 of 191 funds | 46 of 179 funds | 34 of 161 funds | 23 of 99 funds |
| <b>A Shares</b>                     | Morningstar Category % Rank | 80               | 42              | 49              | 49             |
|                                     | Morningstar Category Rank   | 146 of 191 funds | 60 of 179 funds | 75 of 161 funds | 51 of 99 funds |

| Lipper Corporate Debt Funds BBB-Rated |                              | 1-year           | 3-year          | 5-year          | 10-year         |
|---------------------------------------|------------------------------|------------------|-----------------|-----------------|-----------------|
| <b>R6 Shares</b>                      | Lipper Classification % Rank | 56               | 26              | 24              | -               |
|                                       | Lipper Classification Rank   | 141 of 251 funds | 58 of 226 funds | 48 of 206 funds | -               |
| <b>IS Shares</b>                      | Lipper Classification % Rank | 54               | 26              | 25              | 22              |
|                                       | Lipper Classification Rank   | 136 of 251 funds | 57 of 226 funds | 50 of 206 funds | 30 of 136 funds |
| <b>A Shares</b>                       | Lipper Classification % Rank | 63               | 34              | 42              | 44              |
|                                       | Lipper Classification Rank   | 157 of 251 funds | 76 of 226 funds | 86 of 206 funds | 59 of 136 funds |

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 referred to in the quality breakdown are provided by S&P Global Ratings, Moody's, and Fitch. The allocation of ratings presented aligns with the methodology of the Bloomberg index. Bloomberg employs the middle rating from S&P Global Ratings, Moody's, and Fitch to determine a security's credit classification, essentially following a "two-out-of-three" rule. In cases where only two agencies rate a security, the more conservative (lower) rating is utilized. If only one agency rates a security, that single rating is used. Additionally, certain securities may not have a credit rating from any of the agencies, and they are categorized as "not rated." For clarity, credit ratings of A or better are indicative of high credit quality, while BBB represents good credit quality and the lowest tier of investment grade. Ratings of BB and below are assigned to lower-rated securities, often referred to as "junk bonds," and credit ratings of CCC or below indicate a high level of default risk. This breakdown doesn't consider the impact of credit derivatives in 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 4.80% for R6 Shares, 4.70% for Institutional Shares and 4.25% for A Shares.

The fund's Institutional Shares commenced operations on January 28, 2008. For the period prior to the commencement of operations of the Institutional Shares, the performance information shown is for the fund's A Shares. The performance of the A Shares has not been adjusted to reflect the expenses applicable to the Institutional Shares since the Institutional Shares have a lower expense ratio than the expense ratio of the A Shares. The performance of the A Shares has been adjusted to reflect the absence of sales charges and adjusted to remove any voluntary waiver of fund expenses related to the A Shares that may have occurred prior to commencement of operations of the Institutional Shares. See the prospectus for other fees and expenses that apply to a continued investment in the fund.

The fund's R6 Shares commenced operations on September 30, 2016. For the period prior to the commencement of operations of the R6 Shares, the performance information shown is for A Shares. The performance of the A Shares has not been adjusted to reflect the expenses applicable to the R6 since the R6 Shares have a lower expense ratio than the expense ratio of the A Shares. The performance of the A Shares has been adjusted to reflect the absence of sales charges and adjusted to remove any voluntary waiver of the fund's expenses related to the A Shares that may have occurred during the period prior to the commencement of operations of the R6 Shares. See the prospectus for other fees and expenses that apply to a continued investment in the fund.

## Federated Hermes Corporate Bond Fund

### 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.

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 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 US Corporate High Yield 2% Issuer Capped Index** is an issuer-constrained version of the flagship US Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index wide on a pro rata basis. The index was created in 2002, with history backfilled to January 1, 1993.

**Bloomberg US Credit Index** is composed of all publicly issued, fixed-rate, nonconvertible, investment-grade corporate debt. Issues are rated at least Baa by Moody's Investors Service or BBB by S&P Global Ratings's, if unrated by Moody's. Collateralized Mortgage Obligations (CMOs) are not included. Total return comprises price appreciation/depreciation and income as a percentage of the original investment.

Indexes are unmanaged and cannot be invested in directly.

### Ratings and rating agencies

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