

# Federated Hermes Intermediate Corporate Bond Fund

6/30/24

## Fund facts

### Performance inception date

12/20/93

### Benchmark

Bloomberg US Intermediate Credit Index

### Morningstar category

Corporate Bond

### Lipper classification

Corporate Debt Funds BBB-Rated

### Fund assets

\$389.1 million

### Ticker symbols

Institutional Shares - FIIFX

Service Shares - INISX

### Key investment team

Bryan Dingle, CFA

Brian Ruffner

### Yields (%)

30-day yield (IS) 4.81

30-day yield (SS) 4.56

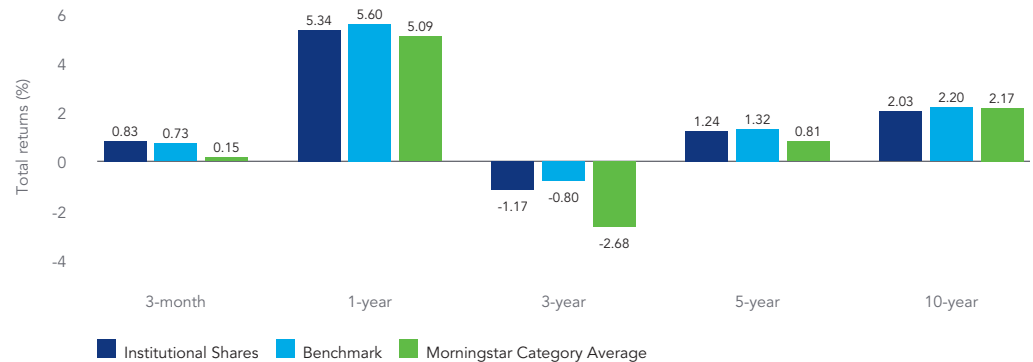
## Fund description

The fund seeks to provide current income by investing in a diversified portfolio of investment grade, fixed income securities. Under normal market conditions, the Fund's dollar-weighted average maturity is expected to be between three and ten years and dollar-weighted average duration to between three and seven years.

## 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>Institutional Shares</b>	0.83	1.03	5.34	-1.17	1.24	2.03	4.53	0.97	0.52
<b>Service Shares</b>	0.76	0.90	5.08	-1.41	0.99	1.78	4.28	1.22	0.77
<b>Benchmark</b>	0.73	0.93	5.60	-0.80	1.32	2.20	-	-	-



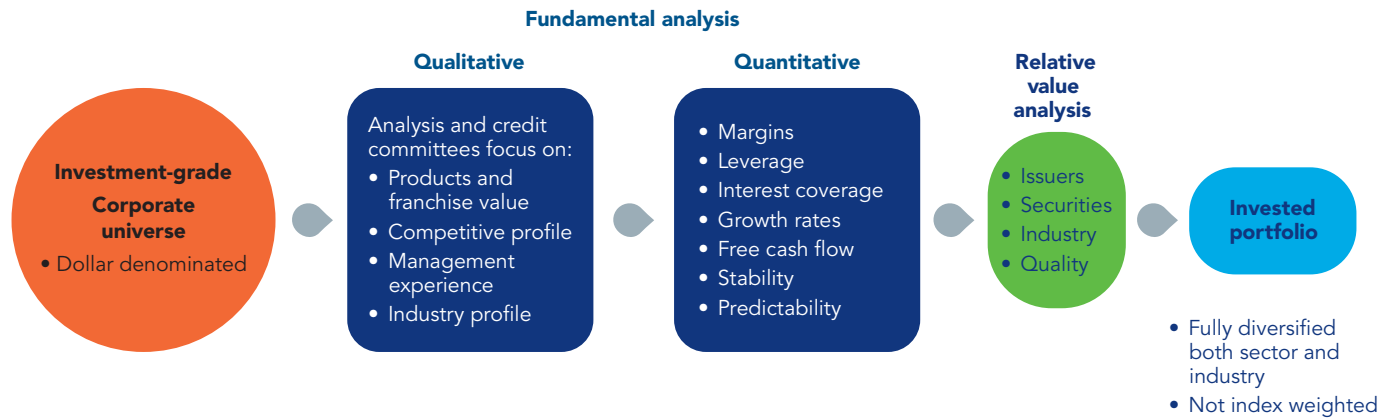
## Calendar year total returns (%)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>Institutional Shares</b>	6.40	-9.51	-1.25	7.55	9.70	-0.49	4.31	3.91	-0.07	4.30
<b>Benchmark</b>	6.94	-9.10	-1.03	7.08	9.52	0.01	3.67	3.68	0.90	4.16
<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](http://FederatedHermes.com/us).

\* 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 7/1/25 or the date of the fund's next effective prospectus.

## Investment process



## Portfolio statistics

Weighted average effective maturity	4.7 yrs.
Weighted average effective duration	3.9 yrs.
Weighted average coupon	4.04%
Weighted average yield to maturity	5.31%
Weighted average bond price	\$95.71

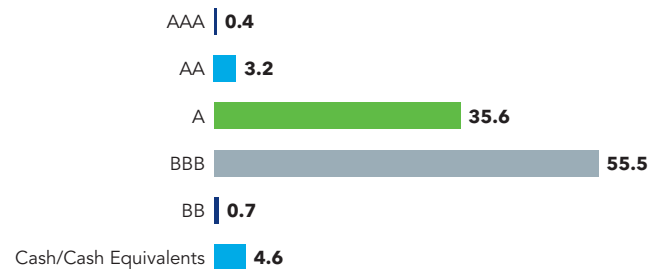
## Top holdings (%)

Bank of America Corp., 2.592% due 4/29/31	0.6
Bank of America Corp., 3.824% due 1/20/28	0.6
Citigroup, Inc., 2.572% due 6/03/31	0.6
Oracle Corp., 6.150% due 11/09/29	0.6
Amgen, Inc., 5.250% due 3/02/30	0.5
Bank of America Corp., 4.571% due 4/27/33	0.5
Goldman Sachs Group, Inc., 3.691% due 6/05/28	0.5
Hyundai Capital America, 5.300% due 1/08/29	0.5
NextEra Energy Capital Holdings, Inc., 5.000% due 2/28/30	0.5
Wells Fargo & Co., 3.584% due 5/22/28	0.5
Total % of portfolio	5.4

## 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

- The Bloomberg US Intermediate Credit Index (BICI), which excludes long maturities, had positive total returns of 0.73%, while the broad Bloomberg US Credit Index had negative returns of -0.05%.
- Intermediate investment-grade credit outperformed similar duration U.S. Treasuries with lower quality doing better than higher quality. Longer duration credit lagged in the quarter.
- Slightly positive total returns in the intermediate area were driven by coupon income that offset slight spread widening. Overall corporate bond spreads on the Bloomberg US Credit Index were slightly wider.

## 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 Federal Reserve (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. Commodity returns were strong, led by silver and copper, with only crude oil and gasoline lower.

Digging deeper into the credit sector results, the broad Bloomberg US Credit Index is comprised of the intermediate (68%) and long credit (32%) indices. Within the period, total returns for the credit index were negative, however this was driven by the long index as intermediates actually had slightly positive total returns. In all instances, lower-quality credit outperformed higher quality. Also, only the intermediate index outperformed equal duration U.S. Treasuries during the period, while the credit and long credit indices underperformed. For the quarter, the Bloomberg US Credit Index generated total returns of -0.05%, the Bloomberg US Long Credit Index had total returns of -1.68% and the BICI returned 0.73%.

## Performance

Federated Hermes Intermediate Corporate Bond Fund Institutional Shares returned 0.83% at net asset value (NAV) for the second quarter of 2024. The fund's benchmark, the BICI, had a total return of 0.73%. 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 BICI.

### Performance contributors

- Security selection was the largest contributor to performance in the period. There was strong selection in banking, consumer non-cyclicals, capital goods, communications and technology
- The only positive sector contributor was an underweight to sovereigns, which underperformed
- Duration was a positive contributor to performance. Although the portfolio was neutral duration, on average intra-month movements were contributors in the period

### Performance detractors

- Sector and yield curve were only slight negatives in the month
- The tickers that were the weakest performers in the period were Jefferies, Anheuser-Busch and Morgan Stanley

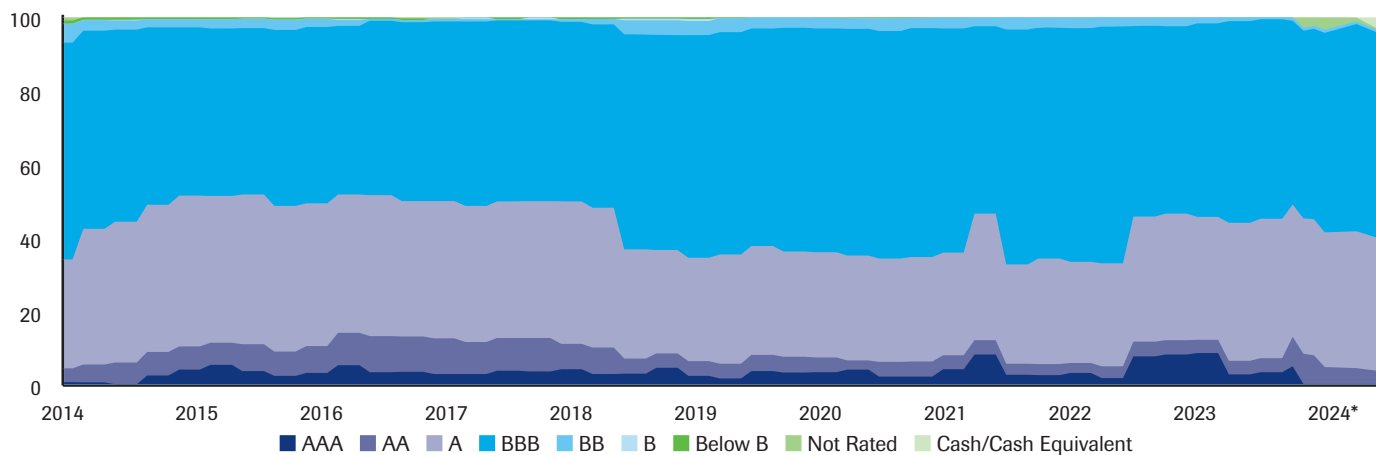
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## How we are positioned

The economy is experiencing a slowdown in inflation and more recently showing some evidence of cooling growth. Meanwhile, the Fed is biding its time as they wait for enough convincing economic data in order for them to confidently move into rate reduction mode. The recent back-and-forth of economic data has been evident in market movements. Despite the volatility, we remain focused on picking credits that generate strong cash flows, have defensive characteristics and are industry leaders throughout the cycle. We remain overweight the BBB quality bucket, however we are positioned to take advantage of opportunities should wider corporate spreads present themselves.

*See disclosure section for important disclosures and definitions.*

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



\* As of 6/30/24

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## Risk statistics

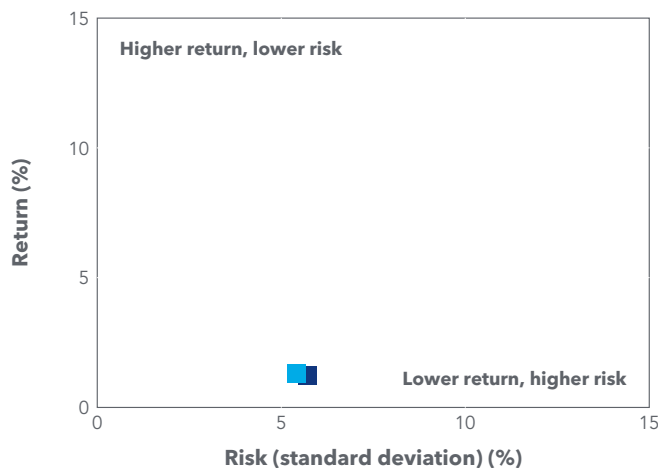
	3-year	5-year	7-year	10-year
<b>Standard deviation</b>	5.59	5.72	4.98	4.37
<b>Alpha</b>	-0.44	-0.02	-0.12	-0.18
<b>Beta</b>	0.98	1.05	1.04	1.04
<b>Up capture ratio</b>	96.97	102.25	100.21	99.36
<b>Down capture ratio</b>	101.91	103.92	102.97	103.10
<b>Sharpe ratio</b>	-0.80	-0.18	-0.06	0.68

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. Bloomberg US Intermediate Credit Index

**See disclosure section for important definitions.**

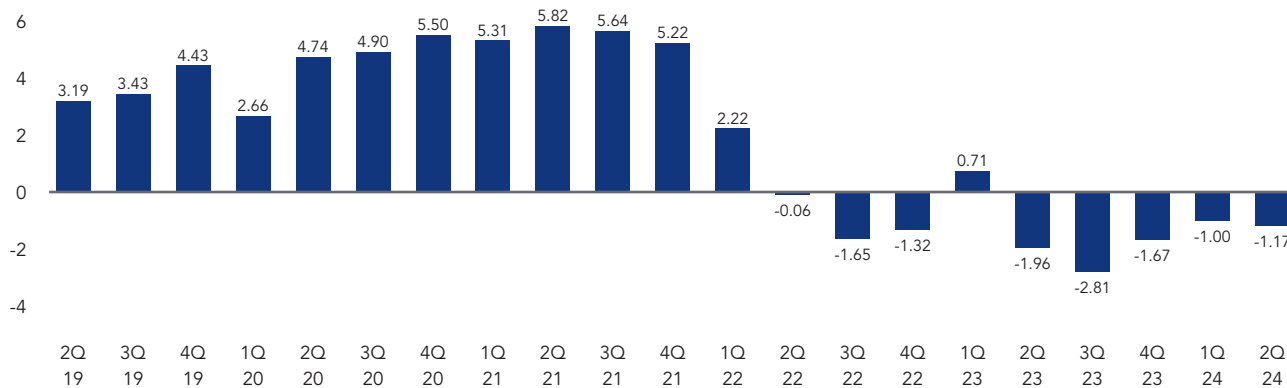
## 5-year risk/return



	Risk (%)	Return (%)
■ Federated Hermes Intermediate Corporate Bond Fund (IS)	5.72	1.24
■ Bloomberg US Intermediate Credit Index	5.41	1.32

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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>IS Shares</b>	Morningstar Category % Rank	43	13	19	73
	Morningstar Category Rank	75 of 191 funds	11 of 179 funds	23 of 161 funds	69 of 99 funds
<b>SS Shares</b>	Morningstar Category % Rank	52	15	29	87
	Morningstar Category Rank	93 of 191 funds	13 of 179 funds	40 of 161 funds	81 of 99 funds

Lipper Corporate Debt Funds BBB-Rated		1-year	3-year	5-year	10-year
<b>IS Shares</b>	Lipper Classification % Rank	32	10	20	59
	Lipper Classification Rank	80 of 251 funds	21 of 226 funds	41 of 206 funds	80 of 136 funds
<b>SS Shares</b>	Lipper Classification % Rank	42	12	27	70
	Lipper Classification Rank	104 of 251 funds	27 of 226 funds	55 of 206 funds	95 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.

## Federated Hermes Intermediate Corporate Bond Fund

<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 4.51% for Institutional Shares and 4.06% for Service Shares.

### 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 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 US Intermediate Credit Index** measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. The index only includes securities with maturity between one and ten years. It is composed of the Bloomberg US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

Indexes are unmanaged and cannot be invested in directly.

### Ratings and rating agencies

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