

# Federated Hermes Muni and Stock Advantage Fund

6/30/23

## Fund facts

### Performance inception date

9/26/03

### Benchmark

40% Russell 1000® Value Index/60% S&P Municipal Bond Index

### Morningstar category

Moderately Conservative Allocation

### Lipper classification

Mixed-Asset Target Allocation  
Conservative Funds

### Fund assets

\$1.4 billion

### Ticker symbols

Institutional Shares - FMUIX

A Shares - FMUAX

C Shares - FMUCX

F Shares - FMUFX

### Key investment team

Stephen Gutch, CFA

R.J. Gallo, CFA

Ann Ferentino, CFA

Steven Chiavarone, CFA

Michael Jura

### Yields (%)

30-day yield (IS) 2.47

30-day yield (A) 2.10

12-month yield (IS) 2.65

12-month yield (A) 2.41

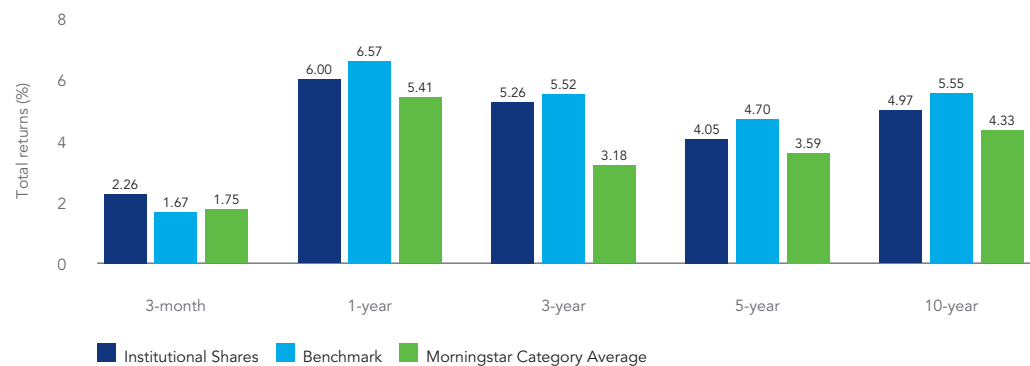
## Fund description

The fund seeks to provide tax-advantaged income, with a secondary objective of capital appreciation, by investing in a diversified portfolio of tax-exempt municipal bonds and dividend-paying stocks.

## 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>	2.26	4.87	6.00	5.26	4.05	4.97	5.23	0.83	0.75
<b>A Shares (NAV)</b>	2.12	4.66	5.74	4.97	3.77	4.70	5.26	1.08	1.00
<b>A Shares (MOP)</b>	-3.51	-1.07	-0.11	3.00	2.61	4.12	4.96	1.08	1.00
<b>Benchmark</b>	1.67	3.63	6.57	5.52	4.70	5.55	-	-	-



## After-tax average annual total returns (%)

	Net asset value					Maximum offering price				
	Cumulative 3-month	1-year	5-year	10-year	Since inception	Cumulative 3-month	1-year	5-year	10-year	Since inception
<b>Return after taxes on distributions</b>										
<b>IS</b>	1.99	5.31	3.31	4.41	4.80	-	-	-	-	-
<b>A</b>	1.87	5.12	3.06	4.18	4.85	-3.74	-0.69	1.91	3.59	4.55
<b>Return after taxes on distributions and sale of fund shares</b>										
<b>IS</b>	1.34	4.00	3.32	4.16	4.59	-	-	-	-	-
<b>A</b>	1.25	3.81	3.08	3.93	4.61	-2.08	0.32	2.17	3.44	4.34

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). Maximum offering price figures reflect the maximum sales charge of 5.5% 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 1/1/24 or the date of the fund's next effective prospectus.



## Distinguishing characteristics

<b>Tax-advantaged income</b>	Combination of tax-free munis and qualified dividend stocks in a single portfolio	Potential for relatively high, tax-advantaged monthly income and dividend growth as inflation protection
<b>Differentiated portfolio</b>	At least 50% in municipal bonds and diversified across all S&P 500® sectors	Broad diversification driven by low correlation between equity and muni asset classes
<b>Long-term potential</b>	Experienced team of managers seeking to provide tax-advantaged income in various market cycles	Potential for lower volatility than a typical equity fund and higher capital appreciation than a typical bond fund

## Portfolio statistics

Weighted average effective maturity	11.4 yrs.
Weighted average stated maturity	19.7 yrs.
Weighted average effective duration	8.5 yrs.
Weighted average modified duration	7.3 yrs.
Weighted average market cap	\$504.9 b

## Top holdings (%)

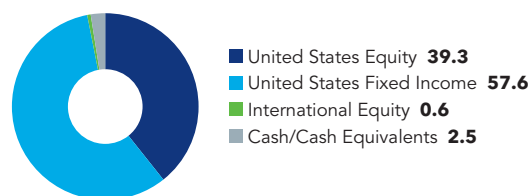
### Equity portfolio

Microsoft Corp.	2.0
Apple Inc.	1.8
Alphabet Inc.	1.4
Johnson & Johnson	1.1
Exxon Mobil Corporation	0.9

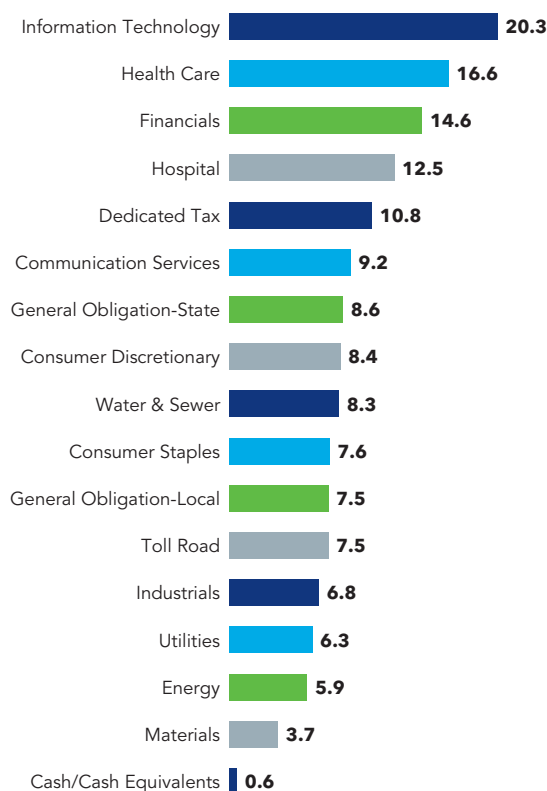
### Fixed-Income portfolio

Puerto Rico Sales Tax Financing Corp., Restructured Sales Tax Bonds (Series 2019A), 5.000%, 07/01/2058	0.9
New York City, NY, UT GO Bonds (Series 2018B-1), 5.000%, 10/1/2039	0.6
Tampa, FL, (Tampa, FL Water and Wastewater Systems), Water and Wastewater Revenue Bonds (Series 2022A), 5.000%, 10/01/2047	0.6
Tobacco Settlement Financing Corp., NJ, Tobacco Settlement Asset-Backed Subordinate Refunding Bonds (Series 2018B), 5.000%, 06/01/2046	0.6
Virginia College Building Authority, Revenue Bonds (Series 2018A), 5.000%, 09/01/2031	0.6

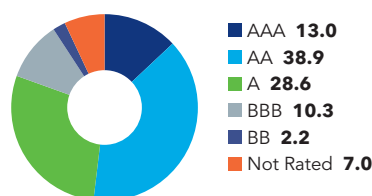
## Portfolio composition (%)



## Top sector weightings (%) - Equity



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



Portfolio composition is based on net assets at the close of business on 6/30/23 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 broad equity market as measured by the S&P 500 returned 8.74% for the quarter, driven in large part by sharp increases in technology stocks
- Growth significantly outperformed value across all market caps and large cap outperformed mid and small cap
- The equity portion of the fund outperformed its benchmark (Russell 1000 Value), driven largely by stock selection the Information Technology and Health Care sectors
- The fund's bond portfolio outperformed its benchmark (S&P Municipal Bond Index)

## Looking back

The equity markets were positive once again in the second quarter, returning 8.74% as measured by the S&P 500. The quarter started with a sharp rise in growth stocks, driven in large part by the tech sector, which experienced better-than-expected earnings and enthusiasm for artificial intelligence applications. Manufacturing and trucking activity softened, as did retail sales, but expenditures on services, travel and entertainment accelerated. Markets pushed past March's banking stress in April and continued to climb in May despite debt-ceiling fears and a 25 basis-point hike in the target fed funds range. Stocks rose further in June as the Fed skipped a hike in the month but signaled two more quarter-point increases were likely this year. Growth and consumer spending consistently surprised to the upside, and the annual Fed stress tests showed banks, particularly money centers and larger regionals, to be relatively solid.

Treasury and municipal market yields increased during the quarter as the U.S. economy continued to expand at a moderate pace, inflation remained elevated and labor markets remained tight. The resilient economy and persistent inflation, combined with fading fears of banking sector instability, prompted upward revisions in market expectations for Fed policy as well as the Fed's own projections for the peak fed funds rate. The AAA-rated Bloomberg Evaluation 2-year, 10-year and 30-year municipal yields increased a respective 51, 27 and 19 basis points over the period, and Treasury yields increased by 87, 37 and 21 basis points on 2-year, 10-year and 30-year securities, respectively.

In the second quarter, growth stocks significantly outperformed value stocks across all market caps with large growth leading the way. The Russell 1000 Growth returned 12.81% versus the 4.07% return for the Russell 1000 Value. Cyclical stocks generally outperformed defensive stocks, led by Information Technology, Consumer Discretionary and Communication Services. And equities as measured by the S&P 500 outperformed fixed income as measured by Bloomberg US Aggregate Bond Index, which returned -0.84% for the quarter.

In the municipal market, the S&P Municipal Bond Index posted a return of 0.01% for the quarter. The three-year component of the index returned -0.54%, the 10-year component returned -0.53% and the portion of the index maturing in 22 years and longer returned 0.95%. The S&P Intermediate Municipal Bond Index returned -0.52%. The S&P Municipal Bond A-Rating Band Index returned 0.04%, the BBB Rating Band Index returned 0.66% and the S&P High Yield Municipal Bond Index returned 2.03%.

## Performance

Federated Hermes Muni & Stock Advantage Fund Institutional Shares returned 2.26% in the second quarter of 2023, outperforming the 1.67% return of the fund's blended benchmark of 40% Russell 1000 Value Index and 60% S&P Municipal Bond Index.

### Performance contributors

- Overweights in Information Technology and Consumer Discretionary and underweight to Energy
- Stock selection in Information Technology, Health Care and Materials
- Duration positioning and fixed income sector allocation with an overweight to Lifecare, Toll Roads and Tobacco Settlement bonds and an underweight to Housing and Local-GO bonds
- Rating allocation with an underweight to high quality and an overweight to A, BBB and non-investment-grade bonds
- Fixed income security selection with overweights in holdings with rating upgrades and improving credit quality
- The fund's heavier concentration in mid to lower quality credit and longer duration relative to the S&P Municipal Bond Index

### Performance detractors

- Underweight in Industrials and Financials, and an overweight in Utilities
- Stock selection in Communication Services, Industrials, and Consumer Staples
- Sector allocation with an underweight to State-GO bonds

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## How we are positioned

As we move into the third quarter, we expect continued market uncertainty due to unknowns about economic growth, the lagged impact of the past year's rapid rise in rates, the course of future rate hikes, inflation's pace, geopolitical concerns and China's reopening. Many global manufacturing and services PMIs are in contraction territory, and depressed consumer confidence indicators further add to uncertainty. Our base case for the U.S. economy continues to be a rocky landing, characterized by challenging economic growth even as the labor market remains tight and the consumer resilient. We would not be surprised to see unemployment start to tick up as company margins compress on an inability to further raise prices amid declining unit sales. China's recovery has disappointed, contributing to slower global growth, and the commercial real estate markets may present challenges to exposed regional banks as a troubled office market works through post-pandemic difficulties.

Our positioning is in line with these uncertainties with a tilt towards the value style. We continue to favor higher quality companies while allocating some capital to early cycle companies with favorable valuations, strong balance sheets, and low volatility in their income stream. A number of these companies have discounted a dire economic outlook in our view. We continue to view Information Technology favorably as we expect these companies will maintain margins and earnings and remain cautious on higher-multiple goods producing companies. The fund is centered on a diversified portfolio of value and predominantly income-paying securities with favorable relative valuations, free cash flows, strong balance sheets and improving business fundamentals.

See disclosure section for important disclosures and definitions.

## Risk statistics

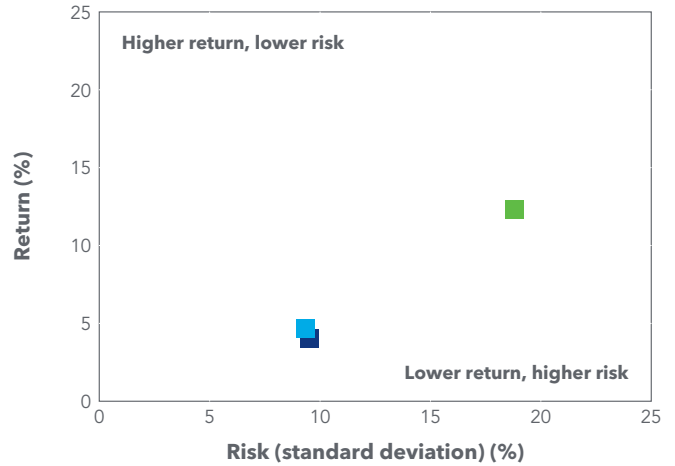
	3-year	5-year	7-year	10-year
<b>Standard deviation</b>	9.45	9.51	8.22	7.41
<b>Alpha</b>	-2.75	-2.88	-2.58	-1.53
<b>Beta</b>	0.49	0.48	0.47	0.46
<b>Correlation</b>	0.94	0.95	0.94	0.92
<b>R<sup>2</sup></b>	88.83	89.58	88.35	84.96

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. S&P 500<sup>®</sup> Index

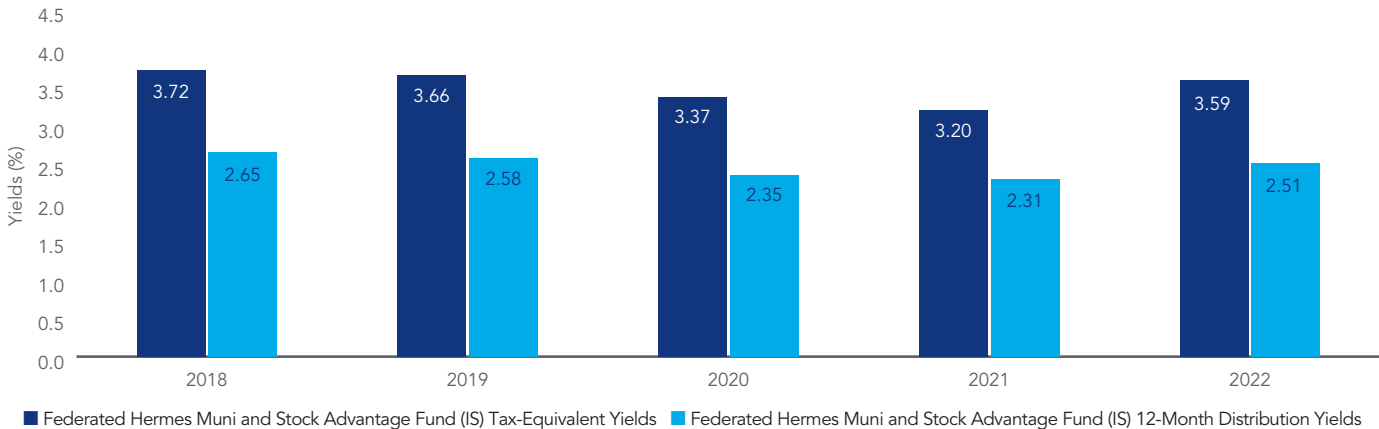
See disclosure section for important definitions.

## 5-year risk/return



	Risk (%)	Return (%)
<span style="color: blue;">■</span> Federated Hermes Muni and Stock Advantage Fund (IS)	9.51	4.05
<span style="color: cyan;">■</span> 40% Russell 1000 <sup>®</sup> Value Index/60% S&P Municipal Bond Index	9.33	4.70
<span style="color: green;">■</span> S&P 500 <sup>®</sup> Index	18.79	12.30

## History of a high level of tax-adjusted income



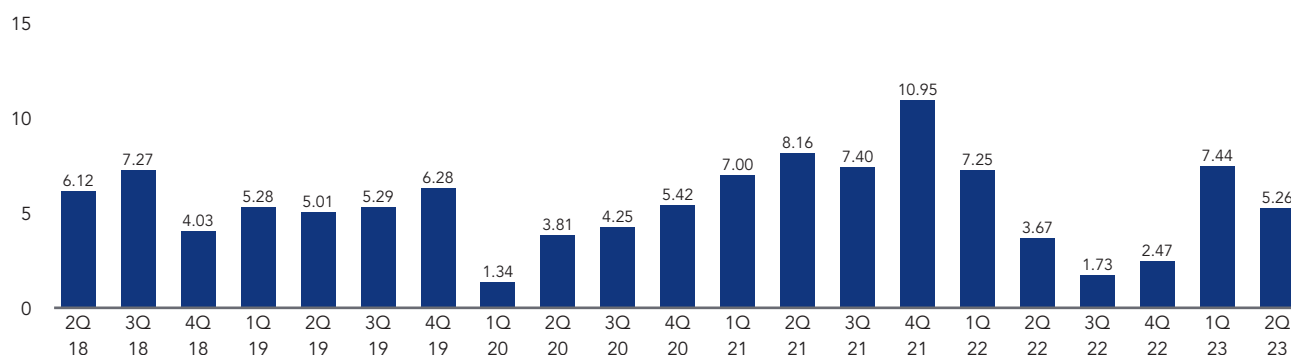
The calculation assumes a 40.8% tax rate (for 2022-2018) for the muni portion; the equity portion was not tax adjusted. The tax equivalent yield assumes the highest marginal tax rate.

Source: Federated Hermes, Inc.

The 12-month distribution yield is calculated by adding up the trailing 12-month's income distributions from a fund and dividing by the last month's ending NAV (plus any capital gains distributed). This provides a historical view of actual dividends that were paid, but may not accurately represent the future.

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



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## Category rankings

Morningstar Moderately Conservative Allocation Category		1-year	3-year	5-year	10-year
<b>IS Shares</b>	Morningstar Category % Rank	33	11	30	19
	Morningstar Category Rank	156 of 461 funds	52 of 438 funds	125 of 405 funds	60 of 293 funds
<b>A Shares</b>	Morningstar Category % Rank	42	13	44	32
	Morningstar Category Rank	192 of 461 funds	65 of 438 funds	172 of 405 funds	98 of 293 funds

Lipper Mixed-Asset Target Allocation Conservative Funds		1-year	3-year	5-year	10-year
<b>IS Shares</b>	Lipper Classification % Rank	14	1	8	5
	Lipper Classification Rank	43 of 318 funds	1 of 308 funds	22 of 279 funds	9 of 218 funds
<b>A Shares</b>	Lipper Classification % Rank	18	1	12	9
	Lipper Classification Rank	57 of 318 funds	3 of 308 funds	32 of 279 funds	19 of 218 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 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") 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 2.01% for A Shares and 2.38% for IS Shares. Yields for other classes will vary. The 12-month yield is the sum of a fund's total trailing 12-month interest and dividend payments divided by the last month's ending share price (NAV) plus any capital gains distributed over the same period.

As indicated in its name, Federated Hermes Muni and Stock Advantage Fund invests in both municipal (muni) securities and equity securities (stock) as described in the fund's prospectus. Thus, the fund is not entirely a "tax-exempt" or "municipal" fund, and a portion of the income derived from the fund's portfolio (or dividend distributions) will be subject to federal income tax and most distributions will be subject to applicable state and local personal income tax.

The fund's Institutional Shares commenced operations on December 29, 2010. 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 of the Institutional Shares, since the Institutional Shares had 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 during the period prior to the commencement of operations of the Institutional Shares.

## Federated Hermes Muni and Stock Advantage Fund

### A word about risk

Mutual funds are subject to risks and fluctuate in value.

International investing involves special risks, including currency risk, increased volatility, political risks and differences in auditing and other financial standards.

Prices of emerging market securities can be significantly more volatile than the prices of securities in developed countries, and currency risk and political risks are accentuated in emerging markets.

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.

Fund income may be subject to state and local taxes. Although this fund pursues tax-advantaged income and seeks to invest primarily in securities whose interest is not subject to the federal alternative minimum tax, there are no assurances that it will achieve these goals.

There are no guarantees that dividend-paying stocks will continue to pay dividends. In addition, dividend-paying stocks may not experience the same capital appreciation potential as non-dividend-paying stocks.

### Definitions

**After-tax returns** are calculated using a standard set of assumptions. Actual after-tax returns depend on each investor's personal tax situation, and are likely to differ from those shown. The stated returns assume the highest historical federal income and capital gains tax rates, but do not reflect the effect of any applicable state and local taxes. Return After Taxes on Distributions assumes a continued investment in the fund and shows the effect of taxes on fund distributions. Return After Taxes on Distribution and Sale of Fund Shares assumes all shares were redeemed at the end of each measurement period, and shows the effect of any taxable gain (or offsetting loss) on redemption, as well as the effects of taxes on fund distributions. After-tax returns are not relevant to investors holding shares through tax-deferred programs, such as IRA, 401(k) plans. The after-tax average annual returns are based on the 37% tax bracket and include the 3.8% tax on net investment income.

**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.

**Correlation** is the degree to which one variable (here, the fund's returns) fluctuates relative to another (the returns of the fund's benchmark). Correlation ranges from 1.00, when two variables move identically in the same direction, to -1.00, when two variables move identically in the opposite direction.

**R-squared** indicates what percentage of a portfolio's movement in performance is explained by movement in performance of the market. R-squared ranges from 0 to 100, and a score of 100 suggests that all movements of a portfolio's performance are completely explained by movements in the market as measured by the fund's benchmark.

**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 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 market capitalization** is calculated as the average market capitalization of the stocks within the portfolio, weighted by the amount of each stock owned.

**Weighted average modified duration** (sometimes called "Weighted Average Duration" or "Duration to Worst") is a measure of a security's price sensitivity to changes in interest rates calculated by assuming that a callable bond will be redeemed on the appropriate call date if the bond is priced to a call date or at maturity if priced to maturity. A fund's weighted average duration will equal the market value weighted average of each bond's weighted average duration in the fund's portfolio. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

**Weighted average stated maturity** is the stated term or maturity of each portfolio security, multiplied by each such security's market value, divided by the total market value of the fund. The stated term or maturity of a portfolio security is the period remaining until such security's stated maturity date, determined without taking into account the ability of a security to be called at the option of the issuer and by taking into account the ability to put the security at the option of the holder.

**Russell 1000<sup>®</sup> Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000<sup>®</sup> Index companies with lower price-to-book ratios and lower expected growth values. The R1000V is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Russell 1000<sup>®</sup> Value Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

**S&P 500<sup>®</sup> Index** is an unmanaged capitalization-weighted index of 500 stocks designated to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

**S&P Municipal Bond Index** is a broad, market value-weighted index that seeks to measure the performance of the U.S. municipal bond market. The index includes bonds of all quality—from "AAA" to non-rated, including defaulted bonds—from all sectors of the municipal bond market.

Indexes are unmanaged and cannot be invested in directly.

### Ratings and rating agencies

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