

Federated Hermes Total Return Bond Fund

Quarterly Update

Federated
Hermes

December 31, 2025

Market review

The fourth quarter was another solid quarter for the bond market, with the Bloomberg US Aggregate Bond Index (BAB) advancing 1.10%. Bond prices rose in every quarter during 2025, and the BAB ended the year up 7.30%.

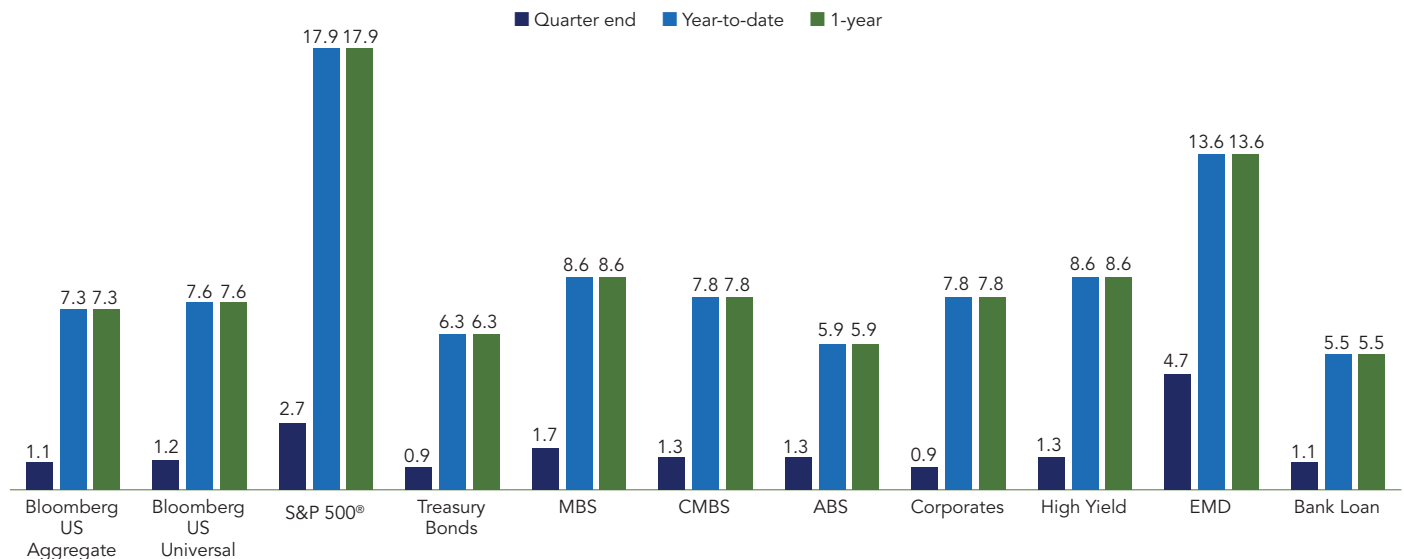
The Federal Reserve (Fed) lowered the overnight federal funds lending rate from a range of 4.00%-4.25% to 3.50%-3.75% in response to weakness in the labor market. The Fed was less concerned that inflation remained stubbornly above its 2% target, judging that once the impact of tariff price hikes moderated, inflation would gradually recede. Despite the decline in short-term interest rates, long-term interest rates were little changed to slightly higher during the quarter as the market feared that looser monetary policy could cause the economy to overheat, adding to the inflation pressures from tariffs.

During the fourth quarter the best performing sectors of the bond market, in declining order of excess return over comparable duration Treasuries, were EM bonds, trade finance loans, MBS, CMBS, and asset-backed securities. Bank loans, high-yield bonds, and investment grade (IG) corporate bonds performed in line with comparable duration Treasuries. Drilling down into sub-sectors of the bond market, industrials underperformed utilities and financials, while Fannie Mae (FNMA) and Freddie Mac (FHLMC) MBS outperformed Ginnie Mae (GNMA) MBS.

Treasury yields ¹				
Maturity	2-year	5-year	10-year	30-year
12/31/2025	3.5%	3.7%	4.2%	4.8%
9/30/2025	3.6%	3.7%	4.2%	4.7%
12/31/2024	4.3%	4.4%	4.6%	4.8%

Option-adjusted spread basis points (Bps) ²	Current	Last year end	10-year median
Mortgage-backed securities (MBS)	22	43	35
Commercial MBS (CMBS)	75	80	80
Asset-backed securities (ABS)	52	44	51
Corporates (IG)	78	80	111
High yield (HY)	266	287	393
Emerging markets debt (EMD)	326	393	527

Market performance recap² (%)



Past performance is no guarantee of future results. For illustrative purposes only and not representative of performance for any specific investment. Investments cannot be made directly in an index.

¹ Source: Department of the Treasury

² Option-adjusted spread indicates the difference in yield between a given sector and comparable maturity Treasury bonds, factoring in any embedded call options where a bond may be called prior to its stated maturity date. Source: Bloomberg Indices. Treasury Bonds: Bloomberg US Treasury Index; MBS: Bloomberg US MBS Index; CMBS: Bloomberg CMBS Erisa Eligible Index; ABS: Bloomberg ABS Index; Corporates: Bloomberg US Credit Index; High Yield: Bloomberg US High Yield 2% Issuer Capped Index; EMD: Bloomberg EM Seasoned ex Agg/Eurodollar Index; Bank Loan: Bloomberg US Leveraged Loan Index.

Fund review

Federated Hermes Total Return Bond Fund IS shares posted a total return net of fees of 1.25% for the quarter. This compares to a return of 1.10% for the BAB. 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 BAB.

Sector allocation

Sector positioning was positive in the quarter. Our underweight to investment grade corporate bonds contributed given the sector had negative excess returns vs. the BAB in the quarter. Relative to the benchmark our positions in HY, Trade Finance, Collateralized Mortgage Obligation ("CMO") Floaters, and EMD (USD and local currency EM debt) are out of index. Our 7% position in Trade Finance, along with the use of CMO floaters (reflected in the MBS category) were the dominant contributors from a sector allocation perspective.

We remain concerned about the potential for modest spread widening as valuations for IG and HY continued to trade at historically tight levels in the fourth quarter, so remained underweight and disciplined on valuation. Our bias is for positions with limited credit and duration risk, and Trade Finance and CMO Floaters align to those characteristics.

Security selection

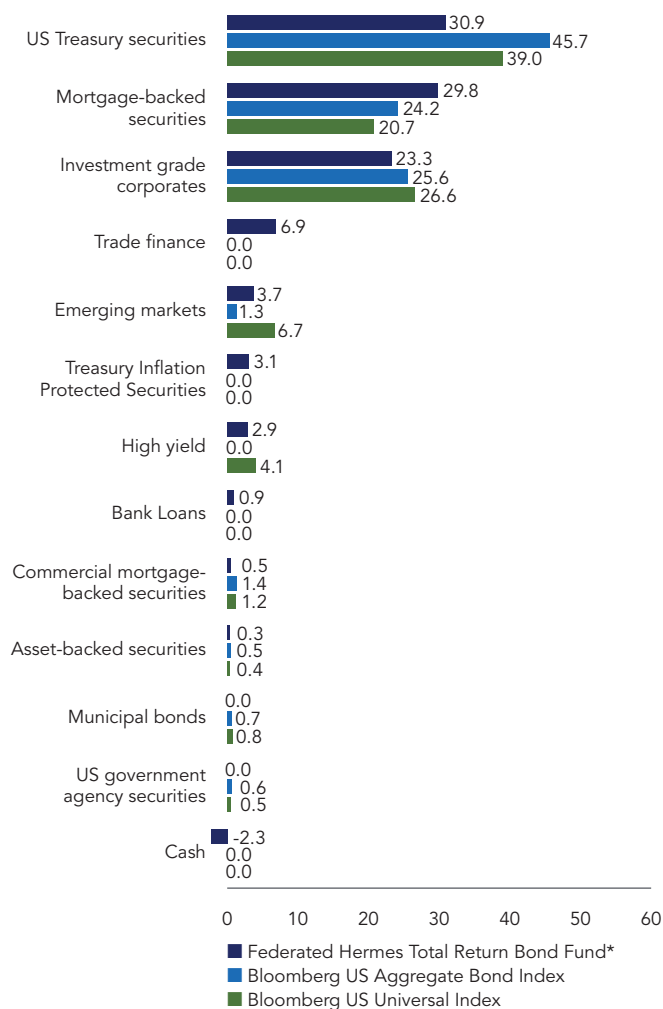
Selection was slightly positive overall with contribution from emerging markets debt issuers. Valuations across the credit spectrum remain tight relative to historical measures; however, emerging themes around artificial intelligence (AI) and mergers & acquisitions (M&A), and affordability may restore value. Additionally, more scrutiny by market participants on credit fundamentals following the swift fall of a few names due to alleged fraud may stem the preference for yield over valuation that was a driver for much of 2025.

Characteristics

	Fund	Index*
Weighted average effective duration	5.9 yrs.	6.0 yrs.
Weighted average effective maturity	8.7 yrs.	8.2 yrs.
Weighted average coupon	4.4%	3.6%
Weighted average yield-to-maturity	4.7%	4.3%
Weighted average bond price	\$97.1	\$94.1
Number of securities	1,053	13,940

*Bloomberg US Aggregate Bond Index.

Sector allocation (%)



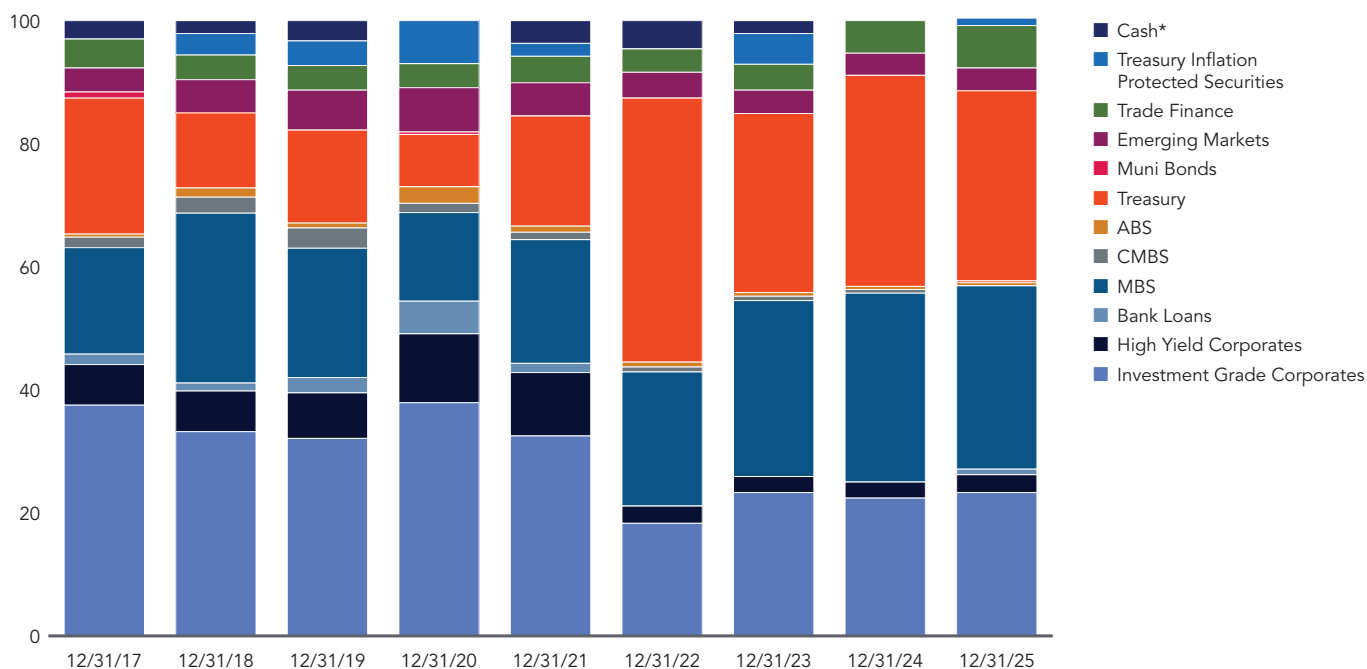
*As of 12/31/25, fund reported negative cash balance.

As of 12/31/25

Source: Federated Hermes, Inc.

Performance data 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. Other share classes may have experienced different returns than the share class presented. To view performance current to the most recent month-end, and for after-tax returns, contact us or visit FederatedHermes.com/us.

Sector allocation history (%)



*As of 12/31/25, fund reported negative cash balance.

Duration management

As was the case through much of the year, U.S. Treasury yields were choppy in the fourth quarter but ultimately ended lower. Positioning leaned long which contributed to returns, but toward the end of the year we opted for a more neutral stance given our view that factors that could push yields in either direction are relatively symmetric. Consumer spending supported by higher income households and capital expenditure linked to the AI build-out continue to provide a solid foundation for US growth which is likely to continue in early 2026. However, job creation has slowed, corporate layoff announcements have increased and President Trump’s approaching nomination of a “dovish” successor to Fed Chair Powell has exerted downward pressure on the expected level of policy rates.

Yield curve management

While the 10-year Treasury Yield to Maturity (YTM) was largely unchanged, short rates declined by 25bps and 30-year YTM actually increased by 10bps. This 35bps of “twist” steepening was positive given we were positioned to be long the 2-year U.S. Treasury (UST) and short the 30-year UST. While over full cycles it is somewhat unusual for yield curve to be the dominant factor in fixed income performance attribution, the fourth quarter’s steepening ensured that yield curve has provided a strong source of excess return for our portfolio in each of the last three years. Since July of 2023, the curve has moved from a significant inverted position to its current positive slope, totaling 250bps of steepening between 2-year notes and 30-year bonds.

Currency management

The strategy was generally underweight to the US dollar (USD) over the quarter but also had few currency pair trades heading into year-end. We view the dollar as likely to decline over the coming year and that there will be less excitement for foreign exchange investors compared to 2025 as major central banks approach the end of their easing cycles. However, additional USD weakness in 2026 could mark a transitional phase for the greenback, potentially signaling the end of the USD’s multi-year dominance and American exceptionalism. Positioning is currently muted as we anticipate that new trends and themes will emerge.

Conclusion

With rate levels somewhat normalized on both an absolute and relative level, and a yield curve with a traditional positive slope, we have reduced our interest rate bets. In turn, we continue to monitor sector spreads which appear to be at or near historic tights. In general, this leads us to want to own less overall credit and we look to be very diversified, utilizing out-of-index sectors (ABS, Bank Loans, Trade Finance, EM), in conjunction with the primary sectors such as MBS, IG and US high yield. In this type of environment, security selection in each of the risk sectors takes on added importance. That plays to another of our strengths as we strive to add value in what will undoubtedly be another noteworthy year.

Average annual total returns (%) as of 12/31/25

	3-month	YTD	1-Year	3-Year	5-Year	10-Year	Expense ratio*	
							Before waivers	After waivers
Institutional Shares - FTRBX	1.25	7.29	7.29	4.80	0.18	2.80	0.47	0.39
A (NAV) Shares - TLRAX	1.11	6.71	6.71	4.22	-0.37	2.25	0.99	0.94
A (MOP) Shares - TLRAX	-3.42	1.91	1.91	2.62	-1.29	1.78	0.99	0.94
Bloomberg US Aggregate Bond Index	1.10	7.30	7.30	4.66	-0.36	2.01	-	-
Morningstar Intermediate Core-Plus Bond	1.03	7.33	7.33	5.38	0.18	2.52	-	-

Yields (%) as of 12/31/25

Fund	30-day	30-day distribution	30-day unsubsidized
Institutional Shares - FTRBX	4.57	4.94	4.51
A (NAV) Shares - TLRAX	4.02	4.38	3.99
A (MOP) Shares - TLRAX	3.84	4.18	3.81

Performance quoted represents past performance, which is no guarantee of future results. Total returns for periods of less than one year are cumulative. 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. Maximum offering price figures reflect the maximum sales charge of 4.5% for A Shares. Other classes of shares are available whose performance will vary due to differences in charges and expenses.

* 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 2/1/27 or the date of the fund's next effective prospectus.

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.

Bank loan instruments carry increased levels of credit and default risk and are generally less liquid than government and investment-grade bonds.

Investments in trade finance-related instruments may entail credit, liquidity, currency, and market risks in addition to other risks, such as the risk of investing in foreign securities and emerging market securities.

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.

International investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards. Prices of emerging-market and frontier-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.

Definitions

The holdings percentages are based on net assets at the close of business on 12/31/25 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.

Total return represents the change in value of an investment after reinvesting all income and capital gains. Total return would have been lower in the absence of temporary expense waivers or reimbursements.

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. For an indefinite period of time, the investment advisor is waiving all or part of its fee and, in addition, may reimburse the fund for some of its expenses. The unsubsidized yield is the yield in the absence of these waivers or reimbursements.

30-day distribution yield is calculated by taking an average of the past 30 days' daily yields.

Duration: A measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

Yield curve: A representation of the difference in yields by maturity date among bonds of the same credit quality.

Weighted Average yield-to-maturity: This figure is calculated by weighting each bond's yield to maturity by its relative size in the portfolio.

Weighted average effective maturity is the average time to maturity of debt securities held in the fund.

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 bond price - calculated by weighting the price of each bond by its relative size in the portfolio. This number reveals if the manager favors bonds selling at prices above or below face value (discount or premium securities, respectively). A higher number indicates a bias toward premiums. This statistic is expressed as a percentage of par (face) value.

Weighted Average Coupon: This figure is calculated by weighting each bond's coupon by its relative size in the portfolio. This figure indicates whether the portfolio has more high- or low-coupon bonds.

Bloomberg US Aggregate Bond Index is an unmanaged index composed of securities from the Bloomberg Government/Corporate Bond Index, Mortgage-Backed Securities Index and the Asset-Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indices are rebalanced monthly by market capitalization.

Bloomberg US Universal Index is an index that represents the union of the US Aggregate Index, US Corporate High-Yield, Investment Grade 144A Index, Eurodollar Index, US Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD denominated, taxable bonds that are rated either investment-grade or below investment-grade. Indexes are unmanaged and cannot be invested in directly.

S&P 500® 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.

Bloomberg US Treasury Index tracks public obligations of the US Treasury with a remaining maturity of one year or more. Treasury inflation-protected securities and treasury bills are not included.

Bloomberg US Mortgage Backed Securities (MBS) Index tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Bloomberg Asset Backed Securities (ABS) Index tracks pass-through, bullet, and controlled amortization structures. Issues are rated at least Baa by Moody's Investors Service or BBB by S&P Global Ratings, if unrated by Moody's.

Bloomberg Commercial Mortgage Backed Securities (CMBS) Erisa Eligible Index tracks commercial mortgage-backed securities which are ERISA-eligible under the underwriter exemption and are rated at least Baa by Moody's Investors Service or BBB by S&P Global Ratings, if unrated by Moody's.

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, 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.

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 Leveraged Loan Index tracks USD-denominated, broadly syndicated floating rate loan market. Loans must be rated high yield (BB or lower) by one or more rating agencies (S&P, Moody's or Fitch) to be eligible.

Bloomberg Emerging Markets Seasoned ex Aggregate/Eurodollar Index is the emerging markets debt component of the Bloomberg Barclay US Universal Bond Index and is generally at least 80% non-investment grade.

Ratings and rating agencies Morningstar Category identifies funds based on their actual investment styles as measured by their underlying portfolio holdings over the past three years. If the fund is less than three years old, the category is based on the life of the fund. ©2026 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

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