

# Federated Hermes Institutional High Yield Bond Fund

12/31/23

## Fund facts

### Performance inception date

11/1/02

### Benchmark

Bloomberg US Corporate High Yield 2% Issuer Capped Index

### Morningstar category

High Yield Bond

### Lipper classification

High Yield Funds Average

### Fund assets

\$7.6 billion

### Ticker symbols

R6 Shares - FIHLX

Institutional Shares - FIHBX

A Shares - FIHAX

### Key investment team

Mark Durbiano, CFA

Kathryn Glass, CFA

Thomas Scherr, CFA

### Yields (%)

30-day yield (R6) 7.31

30-day yield (IS) 7.31

30-day yield (A) 6.73

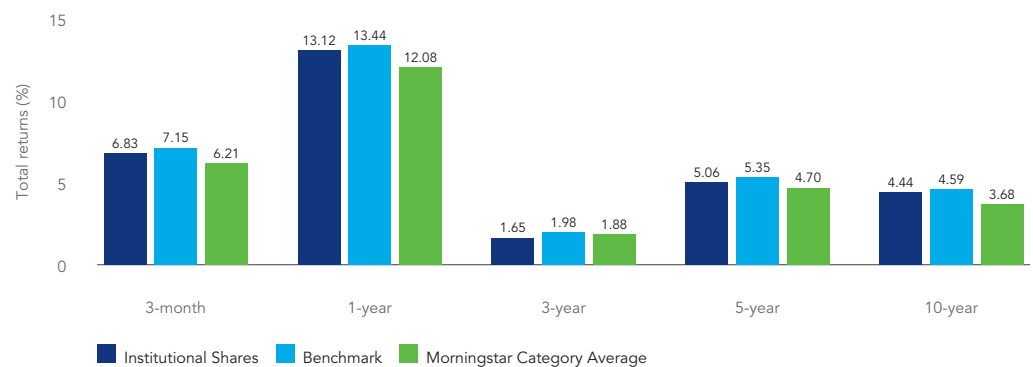
## Fund description

The fund pursues a high level of current income by investing primarily in non-investment-grade corporate fixed-income securities issued by U.S. or foreign businesses. Such securities tend to perform at their best during economic recoveries and expansions, and can offer portfolio diversification as their performance historically is uncorrelated to other types of 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*	
								Before waivers	After waivers
<b>R6 Shares</b>	6.83	13.13	13.13	1.63	5.04	4.44	7.19	0.51	0.49
<b>Institutional Shares</b>	6.83	13.12	13.12	1.65	5.06	4.44	7.46	0.55	0.50
<b>A Shares NAV</b>	6.88	13.00	13.00	1.61	5.03	4.43	7.46	0.81	0.75
<b>A Shares MOP</b>	2.03	7.93	7.93	0.07	4.08	3.95	7.22	0.81	0.75
<b>Benchmark</b>	7.15	13.44	13.44	1.98	5.35	4.59	–	–	–



## Calendar year total returns (%)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>Institutional Shares</b>	13.12	-11.39	4.79	5.98	14.97	-2.84	7.16	15.09	-2.29	3.08
<b>Benchmark</b>	13.44	-11.18	5.26	7.05	14.32	-2.08	7.50	17.13	-4.43	2.46
<b>Morningstar Category Average</b>	12.08	-10.09	4.77	4.91	12.62	-2.59	6.47	13.30	-4.01	1.11

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 charge 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 1/1/25 or the date of the fund's next effective prospectus.



## Investment approach

### Consistency of people

- The high-yield team is comprised of 16 investment professionals with an average of 20 years of investment experience, 12 of 16 team members have more than 10 years of experience, the vast majority of experience earned on the Federated Hermes high-yield team.
- Analysts are industry specialists responsible for researching the complex capital structures of high-yield companies and providing security recommendations to the portfolio managers.

### Consistency of process

- A bottom-up process, focusing on strong operating companies that generate free cash flow in stable and predictable businesses.
- We hold a fundamentally different view of quality compared to the rating agencies. Our process includes: focus on franchise value, industry profile, competitive profile, strength of management, forward-looking view of company financials and a belief that the market is more efficient at pricing high-yield credit risk than the agencies.

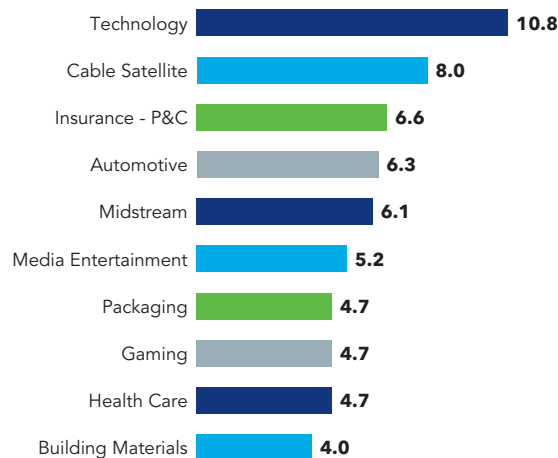
## Portfolio statistics

Weighted average effective maturity	4.1 yrs.
Weighted average duration to worst	3.4 yrs.
Weighted average coupon	5.99%
Weighted average bond price	\$94.01
Weighted average yield to worst	7.82%

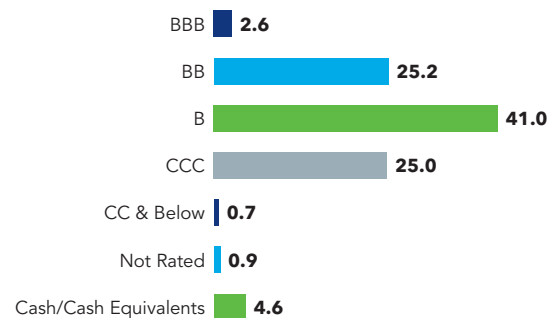
## Top holdings (%)

Ford Motor Co.	2.5
Charter Communications, Inc.	2.0
Hub International Ltd.	1.8
CSC Holdings LLC	1.6
TransDigm, Inc.	1.6
NFP Corp.	1.2
Tenet Healthcare Corp.	1.2
Allied Universal Holdco LLC	1.1
Garda World Security Corp.	1.1
Mozart Debt Merger Sub, Inc.	1.1
Total % of portfolio	15.2

## Top 10 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 12/31/23 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.

## Market overview

For the three months ended December 31, 2023, the high yield market outperformed the investment grade bond market. For example, the Bloomberg US Corporate High Yield 2% Issuer Capped Bond Index (BC2%HYBI) returned 7.15% versus a 6.82% return for the Bloomberg Aggregate Bond Index (Aggregate), a measure of high-quality bond performance.

The high yield market generated very strong absolute and relative performance for the quarter. On an absolute basis, the market was positively impacted by a substantial fall in interest rates driven by increasing conviction that the Federal Reserve's cycle of raising rates had come to an end on the back of falling inflation. For example, the 5-year U.S. Treasury's yield declined approximately 76 basis points (bps) during the quarter. The financial markets are pricing in a roughly 150 basis point decline in the fed funds rate in 2024, although Fed commentary is leaning toward a more modest easing in 2024. The high yield market's strong relative returns were driven by the belief that the odds bet is for a soft landing in the U.S. economy with no recession. This no-recession outlook gave a strong bid to risk-based assets including high yield bonds and equities. The high yield market also benefitted from a lack of new issue supply, which provided a very strong technical backdrop for the market. These factors led to a decline in credit spreads between the Credit Suisse High Yield Bond Index and Treasury securities with similar maturities, which began the quarter at 414 basis points and ended the quarter at 363 basis points.

Within the high yield market, the strongest performing major industry sectors relative to the BC2%HYBI were: Retailers, Media & Entertainment, Building Materials, Wireless Telecommunications and Finance Companies. The worst performing major industry sectors relative to the BC2%HYBI were: Oil Field Services, Airlines, Independent Energy, Packaging and Aerospace & Defense. From a quality perspective, the BB-rated sector led the way with a return of 7.36%, benefitting from the decline in rates. It was closely followed by the B-rated sector and the CCC-rated sector, with returns of 7.01% and 6.91%, respectively.

## Performance

The fund underperformed the BC2%HYBI. The fund was negatively impacted by security selection in the Packaging, Electric Utilities and Automotive industry sectors. The fund was also negatively impacted by its underweight to the Retail sector. Given the strong absolute returns in the quarter, the fund's cash position also negatively impacted returns relative to the BC2%HYBI. Specific high yield issuers held by the portfolio that negatively impacted performance relative to the BC2%HYBI included: ARD Finance SA/Ardagh Packaging, Enviva, Ford Motor Credit Company, iHeartCommunications and Hub International. The fund's total return for the period also reflects actual cash flows, transaction costs and other expenses that were not reflected in the total return of the BC2%HYBI.

The fund was positively impacted by security selection in the Cable & Satellite, Building Materials, Technology, Consumer Cyclical Services, Midstream and Pharmaceutical industry sectors. The fund was also positively impacted by its underweight to the underperforming Airline sector. Specific high yield issuers held by the portfolio that positively impacted performance relative to the BC2%HYBI included: NFP Corp., Midas Opco Holdings, Bausch Health Companies, CSC Holdings and Sinclair Television Group.

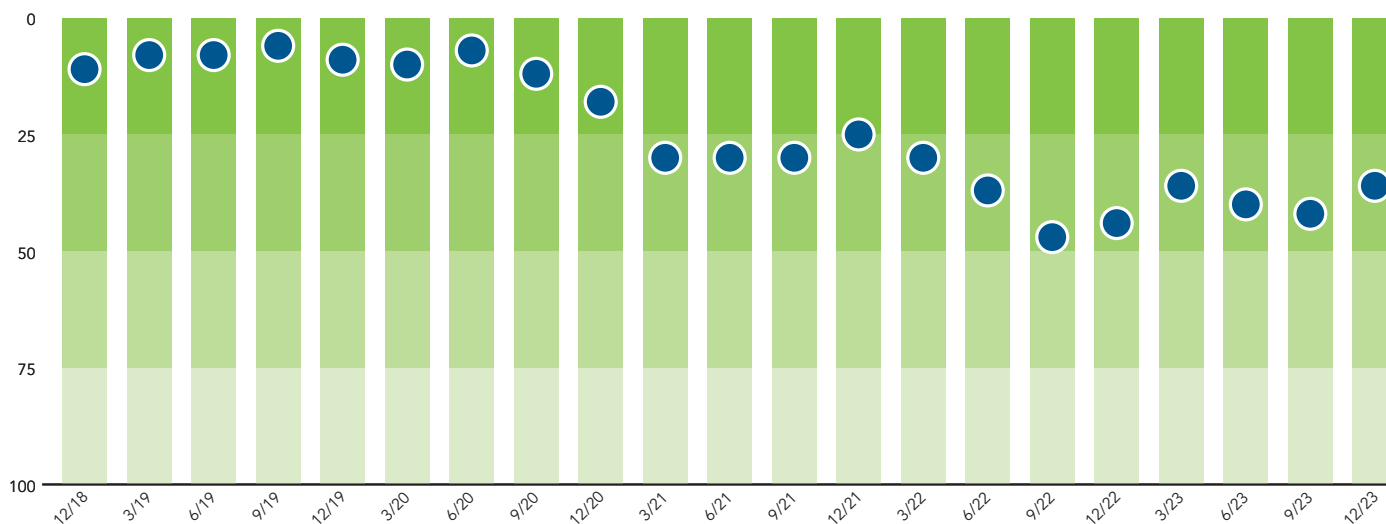
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## How we are positioned

The U.S. economy continues to surprise to the upside with the consensus now leaning toward a soft- or no-landing environment as we move into 2024. Credit spreads largely reflect this outlook as they have moved close to cycle lows. Over the past few years, the economy has certainly benefitted from monetary and fiscal policy stimulus of epic proportions, but those policies have mostly come to an end. All this is occurring in an environment where many historically accurate economic indicators are signaling caution. Either the economy is poised to weaken materially in the near future or the indicators will need to reverse. We do not believe the all clear has been sounded just yet and with spreads close to historical lows, we see no reason to move to an overweight on high yield at this time. However, we are closely monitoring high yield issuers' earnings and free cash flow as well as overall economic conditions to ascertain whether a continued cautious outlook is warranted.

See disclosure section for important disclosures and definitions.

## 5-year rolling Morningstar ranking (%)



5-year rolling Morningstar High Yield Bond Category. Ranking over other time periods will vary.

Percent rankings are for Institutional Shares.

Past performance is no guarantee of future results. Rankings are based on total return.

## Risk statistics

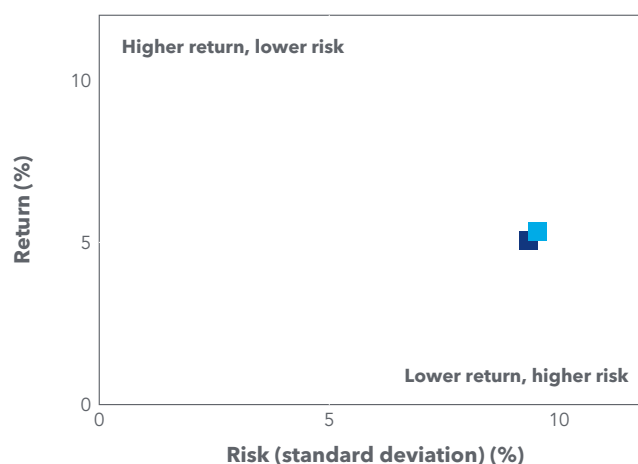
	3-year	5-year	7-year	10-year
<b>Standard deviation</b>	8.42	9.34	8.08	7.38
<b>Alpha</b>	-0.32	-0.21	-0.31	-0.03
<b>Beta</b>	1.00	0.98	0.98	0.96
<b>Up capture ratio</b>	100.16	98.48	97.82	96.79
<b>Down capture ratio</b>	103.59	100.77	101.40	96.84
<b>Sharpe ratio</b>	-0.10	0.32	0.28	0.41

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. Bloomberg US Corporate High Yield 2% Issuer Capped Index

**See disclosure section for important definitions.**

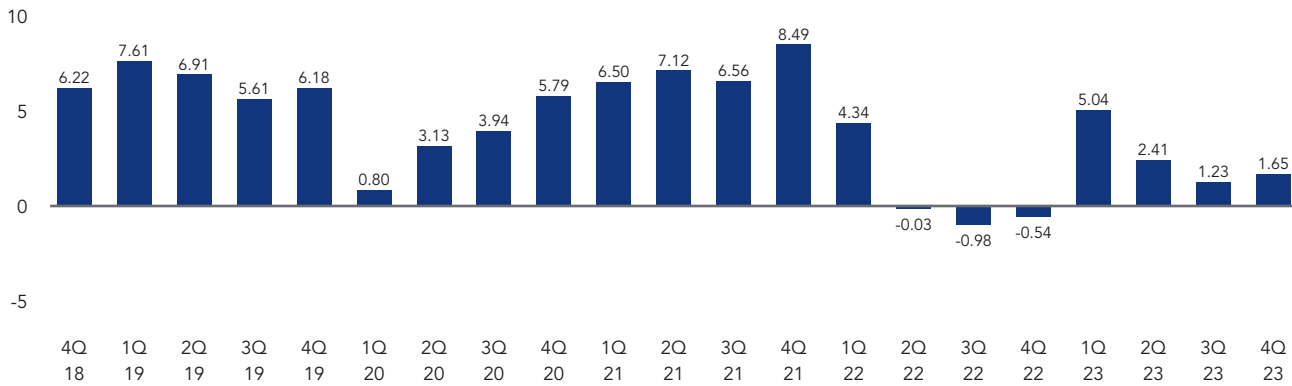
## 5-year risk/return



	Risk (%)	Return (%)
Federated Hermes Institutional High Yield Bond Fund (IS)	9.34	5.06
Bloomberg US Corporate High Yield 2% Issuer Capped Index	9.52	5.35

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



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## Category rankings

Morningstar High Yield Bond Category		1-year	3-year	5-year	10-year
<b>R6 Shares</b>	Morningstar Category % Rank	23	56	38	-
	Morningstar Category Rank	125 of 670 funds	335 of 618 funds	187 of 586 funds	-
<b>IS Shares</b>	Morningstar Category % Rank	23	56	36	17
	Morningstar Category Rank	126 of 670 funds	329 of 618 funds	180 of 586 funds	53 of 432 funds
<b>A Shares</b>	Morningstar Category % Rank	-	-	-	-
	Morningstar Category Rank	-	-	-	-

Lipper High Yield Funds Average		1-year	3-year	5-year	10-year
<b>R6 Shares</b>	Lipper Classification % Rank	19	51	36	-
	Lipper Classification Rank	116 of 634 funds	295 of 583 funds	198 of 557 funds	-
<b>IS Shares</b>	Lipper Classification % Rank	19	50	36	15
	Lipper Classification Rank	118 of 634 funds	288 of 583 funds	195 of 557 funds	60 of 414 funds
<b>A Shares</b>	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.

## Federated Hermes Institutional High Yield Bond Fund

The fund's A Shares commenced operations on February 14, 2023. For the periods prior to commencement of operations of the fund's A 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 A Shares. The performance has been adjusted to reflect the differences in sale charges and deferred sales charges applicable to the A Shares. The expense ratios of the A Shares will be higher than the expense ratio of the Institutional Shares; accordingly, for the periods prior to the commencement of operations, the performance of the A Shares would have been lower than the performance of the Institutional Shares.

<sup>1</sup>The ratings agencies that provided the ratings are Standard & Poor's, Moody's and Fitch. When ratings vary, the lowest 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 6.68% at maximum offering price for A Shares, 7.30% for R6 Shares, and 7.26% for Institutional Shares.

The fund's R6 Shares commenced operations on June 30, 2016. For the period prior to the commencement of operations of the R6 Shares, the performance information shown is for 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 performance of the Institutional Shares has been adjusted to remove any voluntary waiver of fund expenses related to the Institutional Shares that may have occurred during the period prior to the commencement of operations of the R6 Shares.

### 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.

### 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 duration to worst** is the approximate percentage change in a bond's price given a 1% change in its yield-to-maturity or its yield-to-call, whichever is lower. Duration-to-Worst is the same as Macaulay's duration except the pre-determined set of principal and interest cash flows are based on either the final maturity date, or a call date within the bond's call schedule, whichever would result in the lowest yield to the investor – i.e., the Yield-to-Worst.

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

**Weighted average yield to worst** is an average of the lowest potential yield that can be received on a bond without the issuer actually defaulting. The yield to worst is calculated by making worst-case scenario assumptions on the issue by calculating the returns that would be received if provisions, including prepayment, call or sinking fund, are used by the issuer.

**Bloomberg US Aggregate Bond Index** is an unmanaged index composed of securities from the Bloomberg Government/Corporate Bond Index, the 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 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.

Indexes are unmanaged and cannot be invested in directly.

### Ratings and rating agencies

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