

# Federated Hermes Strategic Income Fund

3/31/24

## Fund facts

### Performance inception date

5/4/94

### Benchmark 1

Bloomberg US Aggregate Bond Index

### Benchmark 2

35% Bloomberg US Mortgage Backed Securities Index/40% Bloomberg US Corporate High Yield 2% Issuer Capped Index/25% Bloomberg Emerging Markets Seasoned ex Aggregate/Eurodollar Index

### Morningstar category

Multisector Bond

### Lipper classification

Multi-Sector Income Funds

### Fund assets

\$616.4 million

### Ticker symbols

R6 Shares - STILX

Institutional Shares - STISX

A Shares - STIAX

C Shares - SINCX

F Shares - STFSX

### Key investment team

Donald Ellenberger

Nathan Kehm, CFA

Todd Abraham, CFA

Ihab Salib

Christopher McGinley

Anthony Venturino, CFA

Mark Durbiano, CFA

### Yields (%)

30-day yield (R6) 5.00

30-day yield (IS) 4.99

30-day yield (A) 4.46

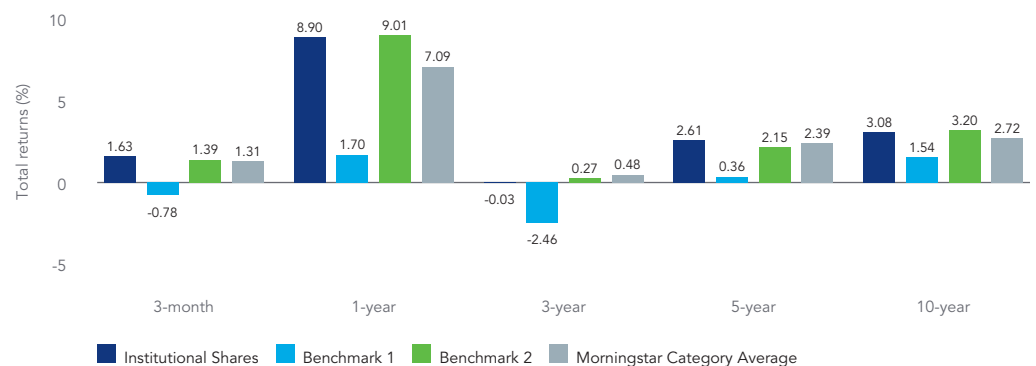
## Fund description

The fund seeks a high level of current income by investing primarily in three bond sectors: U.S. high quality, U.S. high yield, and both developed and emerging international. Its focus is on sectors that management believes will benefit from anticipated changes in economic and market conditions.

## 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>            | 1.49    | 1.49  | 8.85   | -0.05  | 2.62   | 3.01    | 5.45            | 0.76                             | 0.63          |
| <b>Institutional Shares</b> | 1.63    | 1.63  | 8.90   | -0.03  | 2.61   | 3.08    | 5.81            | 0.86                             | 0.64          |
| <b>A Shares (NAV)</b>       | 1.53    | 1.53  | 8.49   | -0.35  | 2.29   | 2.77    | 5.67            | 1.10                             | 0.96          |
| <b>A Shares (MOP)</b>       | -3.01   | -3.01 | 3.63   | -1.86  | 1.34   | 2.30    | 5.51            | 1.10                             | 0.96          |
| <b>Benchmark 1</b>          | -0.78   | -0.78 | 1.70   | -2.46  | 0.36   | 1.54    | -               | -                                | -             |
| <b>Benchmark 2</b>          | 1.39    | 1.39  | 9.01   | 0.27   | 2.15   | 3.20    | -               | -                                | -             |



## Calendar year total returns (%)

|                                     | 2023  | 2022   | 2021  | 2020 | 2019  | 2018  | 2017 | 2016  | 2015  | 2014 |
|-------------------------------------|-------|--------|-------|------|-------|-------|------|-------|-------|------|
| <b>Institutional Shares</b>         | 9.75  | -13.48 | 3.96  | 6.65 | 13.15 | -2.99 | 6.43 | 10.76 | -2.90 | 3.20 |
| <b>Benchmark 1</b>                  | 5.53  | -13.01 | -1.54 | 7.51 | 8.72  | 0.01  | 3.54 | 2.65  | 0.55  | 5.97 |
| <b>Benchmark 2</b>                  | 10.39 | -11.48 | 1.29  | 4.87 | 16.86 | -4.22 | 9.32 | 13.83 | -0.73 | 6.77 |
| <b>Morningstar Category Average</b> | 8.13  | -9.85  | 2.49  | 4.84 | 9.80  | -1.52 | 6.07 | 7.52  | -2.18 | 3.63 |

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 2/1/25 or the date of the fund's next effective prospectus.

Not FDIC Insured • May Lose Value • No Bank Guarantee

**Federated  
Hermes**

# Investment approach

## Flexible, multi-sector approach

- Strategic mix of broad market segments: U.S. high quality, U.S. high yield and foreign (developed and emerging markets)
- Flexibility across sector exposures to position for anticipated changes in economic and market conditions
- Emphasizes credit sectors for added income and return potential

## Consistent, repeatable investment process

- Combines top-down decision making with bottom-up security selection to build diversified, risk-managed portfolios
- Key decision teams known as “alpha pods” seek diversified, uncorrelated alpha sources across various market environments
- Positioning set across five factors: sector allocation, security selection, duration management, yield curve strategy and currency management

## Tenured team with long-term results

- Team-based approach focused by sector to extract value from each step of the process
- Federated Hermes’ fixed-income philosophy and process has a 50-year heritage
- Senior fixed-income management team averages 27 years of experience, and team members have worked together at Federated Hermes for 17 years

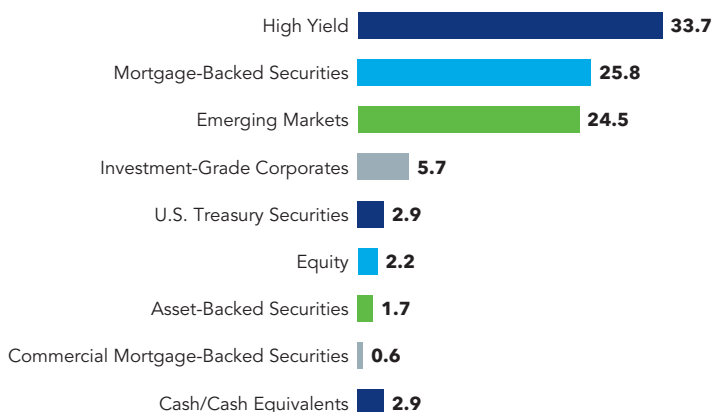
## Portfolio statistics

|                                     |          |
|-------------------------------------|----------|
| Weighted average effective maturity | 7.0 yrs. |
| Weighted average effective duration | 4.8 yrs. |
| Weighted average coupon             | 5.16%    |
| Weighted average yield to maturity  | 7.20%    |

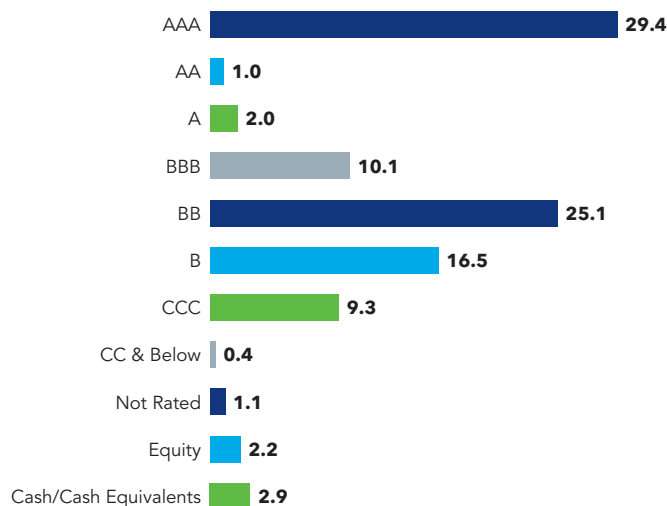
## Top holdings (%)

|   |      |
|---|------|
| High Yield Bond Core Fund                                     | 37.3 |
| Emerging Markets Core Fund                                    | 24.7 |
| Mortgage Core Fund  | 18.0 |
| U.S. Treasury Note, 4.500% due 7/15/26                        | 1.6  |
| FNMA FBT224, 3.000% due 3/01/52                               | 1.3  |
| U.S. Treasury Note, 4.250% due 1/31/26                        | 1.3  |
| FHLMC SD8225, 3.000% due 7/01/52                              | 1.2  |
| FHLMC SD8243, 3.500% due 9/01/52                              | 1.2  |
| FNMA MA4732, 4.000% due 9/01/52                               | 1.1  |
| JP Morgan Mortgage Trust 2022-1, Class A2, 3.000% due 7/25/52 | 0.9  |
| Total % of portfolio  | 88.6 |

## 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 3/31/24 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

- Equity and fixed-income credit markets rallied during the quarter, driven by exceptional economic strength in the U.S.
- Interest rates increased as incoming data indicated a strong labor market and consumer spending may potentially reignite inflation which had fallen during the second half of 2023
- The Federal Reserve (Fed) maintained the fed funds rate at its current level throughout the quarter and communicated it would have patience before beginning to reduce interest rates. Globally, several central banks began to ease their monetary policy
- The yield curve initially steepened in January, but then reversed and flattened as investors priced in a slower pace of monetary easing
- The U.S. dollar strengthened against most other currencies as foreign central banks are seen lowering interest rates more quickly than the Fed

## Looking back

Interest rates rose in the first quarter, reversing part of the big decline in the fourth quarter of 2023 when 10-year Treasury rates fell from 5% to 3.8%. The 10-year Treasury ended the first quarter at 4.2%, boosted by surprisingly strong increases in both employment and inflation that prompted the market to price in fewer cuts in the fed funds rate in 2024. Risk assets like stocks and corporate bond spreads continued to widen, encouraged by robust economic growth and solid corporate earnings.

All sectors of the taxable bond market outperformed Treasuries during the first quarter with the exception of government agency mortgage-backed securities (MBS), which underperformed due to diminished demand from banks. The best-performing sectors, in order of decreasing excess returns relative to comparable-duration Treasuries, were emerging markets (EM) bonds, high-yield bonds, commercial MBS (CMBS), bank loans, investment-grade (IG) corporate bonds, trade finance loans and asset-backed securities. Within the corporate bond market, financials performed better than utilities and industrials, and within MBS the best performers were higher coupon MBS and 15-year MBS.

## Performance

Federated Hermes Strategic Income Fund Institutional Shares had a total return at net asset value of 1.63% for the quarter, outperforming its blended benchmark return of 1.39%. The fund's return also outperformed the Bloomberg US Aggregate Bond Index, a commonly used barometer of performance for the broad high-quality bond market, which returned -0.78%.

### Performance contributors

- Foreign currency exposure
- Equity allocation
- Yield curve positioning
- Overweight in IG corporate bonds

### Performance detractors

- Underweight to high-yield securities
- Security selection in high yield and IG corporate bonds
- Duration

*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](https://FederatedHermes.com/us).*

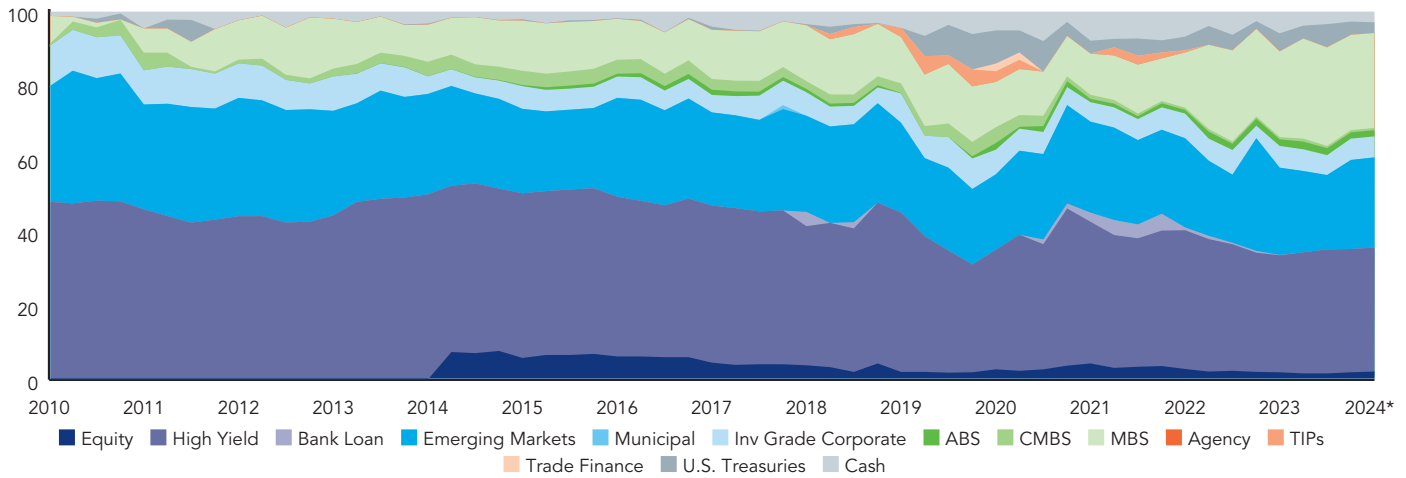
## How we are positioned

Our view at the beginning of the year was that a recession in the U.S. was unlikely and the six 25 basis point cuts in the fed funds rate that were priced into the market would not be realized. On both accounts, the markets have moved more in line with our view.

While Treasury bond yields were increasing during the first quarter, we tactically moved the portfolio duration to equal that of the benchmark. We now think Treasury bond yields are priced attractively, making us more likely to increase duration. We continue to see value in MBS and EM bonds. We also continue to be positioned for a steepening of the yield curve. We continue to have a less than benchmark allocation to high-yield bonds as we think credit spreads are unattractive at current levels.

*See disclosure section for important disclosures and definitions.*

## Historical sector weightings (%)



\* As of 3/31/24

## Risk statistics

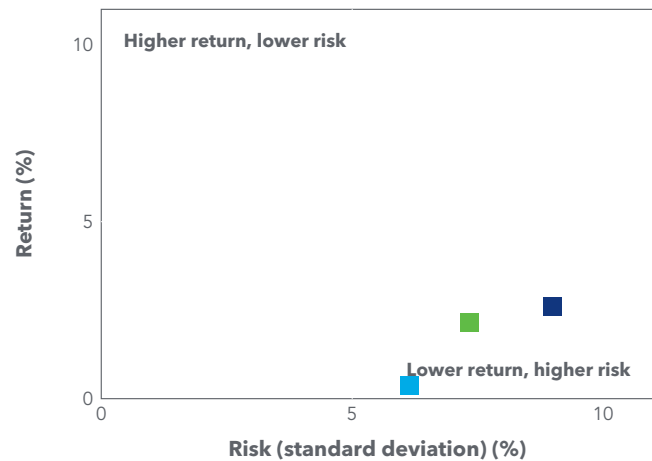
|                           | 3-year | 5-year | 7-year | 10-year |
|---------------------------|--------|--------|--------|---------|
| <b>Standard deviation</b> | 8.57   | 8.99   | 7.84   | 7.06    |
| <b>Alpha</b>              | 2.74   | 2.43   | 1.88   | 1.66    |
| <b>Beta</b>               | 1.04   | 1.00   | 0.95   | 0.89    |
| <b>Correlation</b>        | 0.88   | 0.68   | 0.65   | 0.61    |
| <b>R<sup>2</sup></b>      | 77.22  | 46.44  | 42.53  | 36.75   |

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. Bloomberg US Aggregate Bond Index

**See disclosure section for important definitions.**

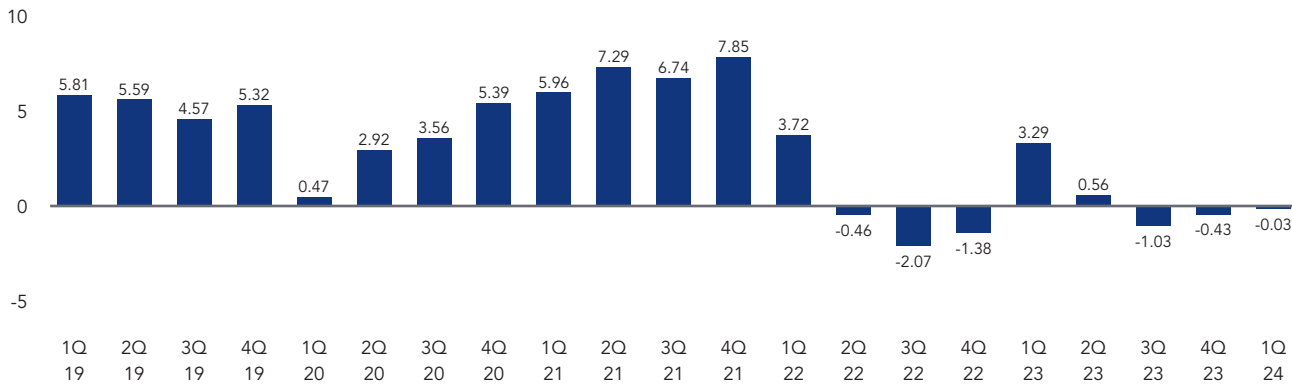
## 5-year risk/return



|  | Risk (%) | Return (%) |
|--|----------|------------|
| ■ Federated Hermes Strategic Income Fund (IS)  | 8.99     | 2.61       |
| ■ Bloomberg US Aggregate Bond Index  | 6.14     | 0.36       |
| ■ 35% Bloomberg US Mortgage Backed Securities Index/40% Bloomberg US Corporate High Yield 2% Issuer Capped Index/25% Bloomberg Emerging Markets Seasoned ex Aggregate/Eurodollar Index | 7.34     | 2.15       |

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).

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



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).

## Category rankings

| Morningstar Multisector Bond Category |                             | 1-year          | 3-year           | 5-year           | 10-year         |
|---------------------------------------|-----------------------------|-----------------|------------------|------------------|-----------------|
| <b>R6 Shares</b>                      | Morningstar Category % Rank | 19              | 64               | 43               | -               |
|                                       | Morningstar Category Rank   | 72 of 352 funds | 197 of 315 funds | 116 of 265 funds | -               |
| <b>IS Shares</b>                      | Morningstar Category % Rank | 18              | 63               | 45               | 34              |
|                                       | Morningstar Category Rank   | 66 of 352 funds | 195 of 315 funds | 120 of 265 funds | 63 of 171 funds |
| <b>A Shares</b>                       | Morningstar Category % Rank | 27              | 76               | 62               | 51              |
|                                       | Morningstar Category Rank   | 94 of 352 funds | 233 of 315 funds | 166 of 265 funds | 89 of 171 funds |

| Lipper Multi-Sector Income Funds |                              | 1-year          | 3-year           | 5-year           | 10-year         |
|----------------------------------|------------------------------|-----------------|------------------|------------------|-----------------|
| <b>R6 Shares</b>                 | Lipper Classification % Rank | 19              | 51               | 33               | -               |
|                                  | Lipper Classification Rank   | 69 of 363 funds | 170 of 337 funds | 95 of 294 funds  | -               |
| <b>IS Shares</b>                 | Lipper Classification % Rank | 18              | 50               | 34               | 33              |
|                                  | Lipper Classification Rank   | 63 of 363 funds | 168 of 337 funds | 98 of 294 funds  | 60 of 181 funds |
| <b>A Shares</b>                  | Lipper Classification % Rank | 23              | 62               | 49               | 48              |
|                                  | Lipper Classification Rank   | 82 of 363 funds | 209 of 337 funds | 142 of 294 funds | 87 of 181 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 S&P Global Ratings, 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") 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 4.35% at maximum offering price for A Shares, 4.89% for R6 Shares, and 4.81% for Institutional Shares.

The fund's R6 Shares commenced operations on January 27, 2017. 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 Shares 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 fund expenses related to the A Shares that may have occurred during the period prior to the commencement of operations of the R6 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.

## Federated Hermes Strategic Income 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 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.

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.

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

**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.

**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).

Indexes are unmanaged and cannot be invested in directly.

### Ratings and rating agencies

Lipper Categories: Data Source: Lipper, A Reuters Company. Copyright 2024© Reuters. All rights reserved. Any copying, republication or redistribution of Lipper content, including by caching, framing or similar means, is expressly prohibited without the prior written consent of Lipper. Lipper shall not be liable for any errors or delays in the content, or for any actions taken in reliance thereon.

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. ©2024 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.