

# Federated Hermes Strategic Income Fund

12/31/24

## 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

\$567.3 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) 6.74

30-day yield (IS) 6.73

30-day yield (A) 6.11

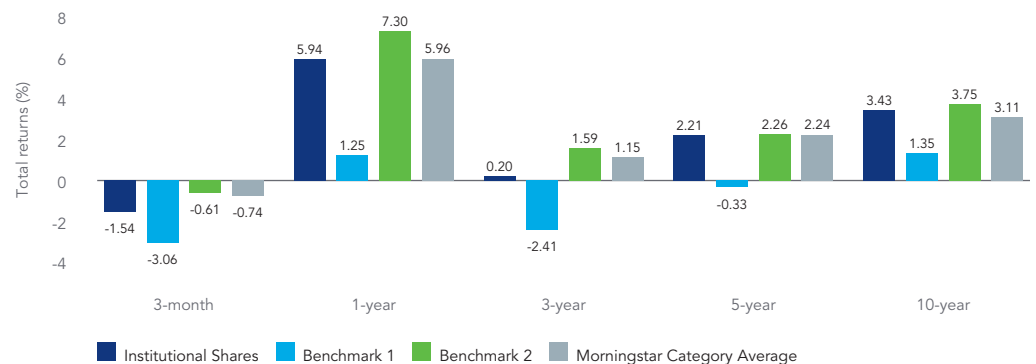
## Fund description

The fund seeks a high level of current income by investing primarily in three bond sectors: US high quality, US 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* Before waivers	After waivers
<b>R6 Shares</b>	-1.64	5.77	5.77	0.17	2.20	3.37	5.45	0.76	0.63
<b>Institutional Shares</b>	-1.54	5.94	5.94	0.20	2.21	3.43	5.81	0.86	0.64
<b>A Shares (NAV)</b>	-1.61	5.56	5.56	-0.12	1.89	3.11	5.66	1.10	0.96
<b>A Shares (MOP)</b>	-6.06	0.83	0.83	-1.63	0.96	2.64	5.51	1.10	0.96
<b>Benchmark 1</b>	-3.06	1.25	1.25	-2.41	-0.33	1.35	—	—	—
<b>Benchmark 2</b>	-0.61	7.30	7.30	1.59	2.26	3.75	—	—	—



## Calendar year total returns (%)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
<b>Institutional Shares</b>	5.94	9.75	-13.48	3.96	6.65	13.15	-2.99	6.43	10.76	-2.90
<b>Benchmark 1</b>	1.25	5.53	-13.01	-1.54	7.51	8.72	0.01	3.54	2.65	0.55
<b>Benchmark 2</b>	7.30	10.39	-11.48	1.29	4.87	16.86	-4.22	9.32	13.83	-0.73
<b>Morningstar Category Average</b>	5.96	8.13	-9.85	2.49	4.84	9.80	-1.52	6.07	7.52	-2.18

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

# Investment approach

## Flexible, multi-sector approach

- Strategic mix of broad market segments: US high quality, US 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
- The fixed-income management team averages 28 years of experience and have worked at Federated Hermes for an average of 18 years

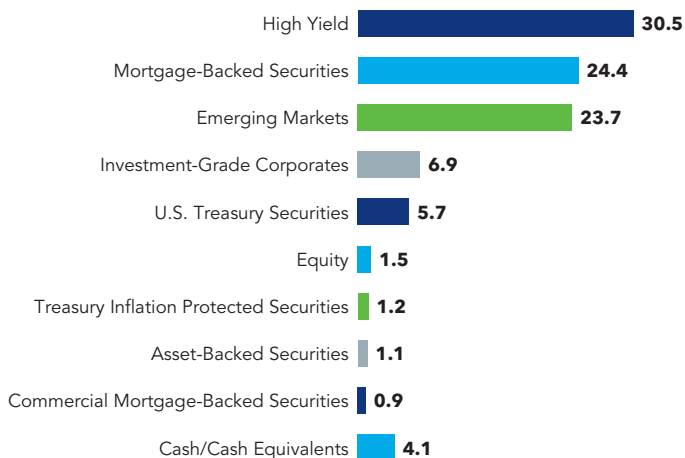
## Portfolio statistics

Weighted average effective maturity	6.6 yrs.
Weighted average effective duration	4.5 yrs.
Weighted average coupon	5.10%
Weighted average yield to maturity	6.77%

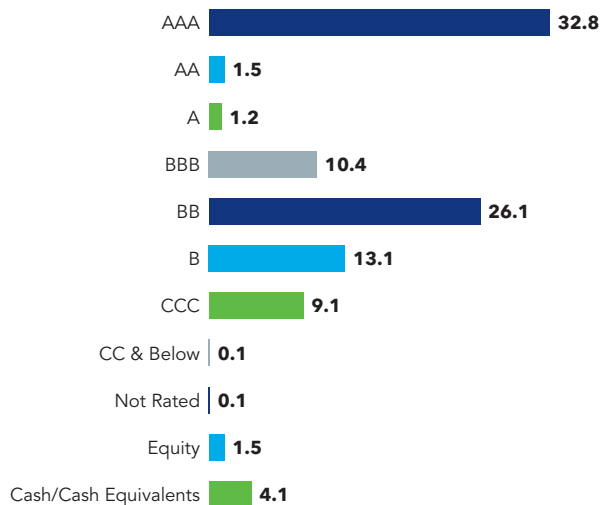
## Top holdings (%)

High Yield Bond Core Fund	35.1
Emerging Markets Core Fund	23.2
Mortgage Core Fund	16.5
U.S. Treasury Note, 4.500% due 7/15/26	1.8
FNMA FBT224, 3.000% due 3/01/52	1.4
U.S. Treasury Note, 4.250% due 1/31/26	1.4
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
U.S. Treasury Note, 4.125% due 11/30/31	1.0
Total % of portfolio	83.9

## 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 12/31/24 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

- US economic growth continued to be resilient in the fourth quarter, however inflation data began to show slower progress towards the Federal Reserve's (Fed) long-term goal of reaching 2% annual inflation
- After aggressively cutting the federal funds rate by 0.50% at its September meeting, the Fed provided only two more 0.25% cuts during the fourth quarter and indicated that a slower pace of cuts may be forthcoming
- The yield curve continued to steepen during the quarter. The difference in yields between the 2-year and 10-year Treasury bonds increased to its highest level since the second quarter of 2022
- In the credit markets, lower-quality bonds outperformed higher-rated bonds
- The US dollar strengthened aggressively against most other major currencies following the US elections

## Looking back

The big decline in interest rates in the third quarter was completely reversed in the fourth quarter. With the economy near full employment, wage gains growing at a 4% clip, and rising stock and home values, consumer spending powered higher, keeping gross domestic product (GDP) growth above potential and inflation above the Fed's 2% target. In response to sticky inflation, the bond market reduced the number of cuts expected in the federal funds rate in coming quarters, causing interest rates to move higher across the yield curve. The election in November added to the upward trend in rates due to concerns over the inflationary impact of a potential trade war and immigration restrictions. The 10-year Treasury yield ended near the highs for the year at 4.57%. Widening yield differentials between US Treasury bonds and the sovereign debt of other countries caused the US dollar to aggressively appreciate against all other major currencies.

A healthy economy and surge in business confidence after the election enabled credit spreads in general to tighten during the quarter, and all sectors of the bond market outperformed Treasuries, with the exception of government mortgage-backed securities. Mortgage-backed securities (MBS) lagged as durations extended for higher coupons, exacerbating losses in a rising rate environment. The best performing sectors of the taxable bond market, in order of decreasing excess returns relative to comparable duration Treasuries, were emerging markets (EM) bonds, high-yield bonds, trade finance loans, investment-grade (IG) corporate bonds, bank loans, asset-backed securities and commercial mortgage-backed securities (CMBS). Within the corporate bond market, utilities outperformed financials and industrials. Within MBS, GNMA mortgages outperformed FNMA and FHLMC mortgages.

## Performance

The Federated Hermes Strategic Income Fund Institutional Shares had a total return net of fees of -1.54% for the quarter, compared to its blended benchmark return of -0.61%. The fund's return outperformed the Bloomberg US Aggregate Bond Index, a commonly used barometer of performance for the broad high-quality bond market, which returned a negative -3.06%.

### Performance contributors

- Yield curve positioning
- Underweight MBS and overweight US Treasury bonds and IG credit
- Equity allocation

### Performance detractors

- Duration
- Underweight allocation to high-yield bonds
- Security selection within the high yield and EM debt allocations
- Foreign exchange exposure

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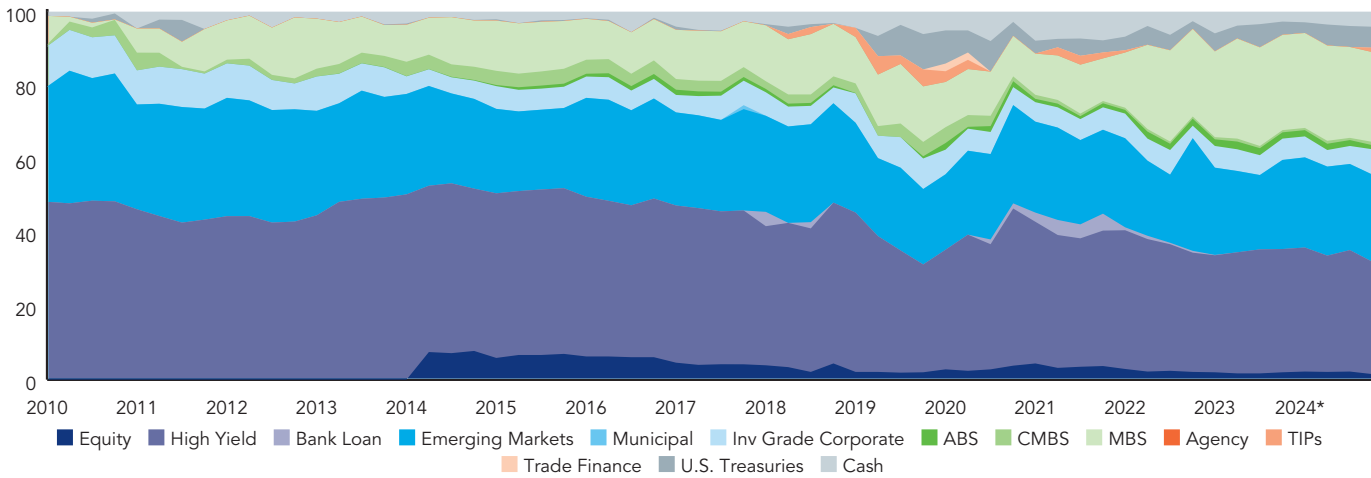
## How we are positioned

With continuing strong economic performance in the US and slowing progress on inflation, we have become slightly more sanguine on our view of a declining interest rate cycle. We have instead become more tactical in moving duration both long and short relative to the benchmark. We expect the yield curve to continue to steepen and favor the intermediate duration (2–7-year maturities) portion of the yield curve. We have recently reduced our exposure to EM debt and continue to have a less than benchmark allocation to high-yield bonds as we think current credit spreads do not adequately compensate investors for the extra risk that is taken.

The fund employed derivatives to both hedge risk and to express duration, yield curve, credit, currency and equity investment themes during the quarter. Derivatives are used when they are less expensive or more efficient than physical securities to express shorter-term tactical investment themes versus the longer-term strategic views generated by Federated Hermes' Alpha Pod process.

See disclosure section for important disclosures and definitions.

## Historical sector weightings (%)



\* As of 12/31/24

## Risk statistics

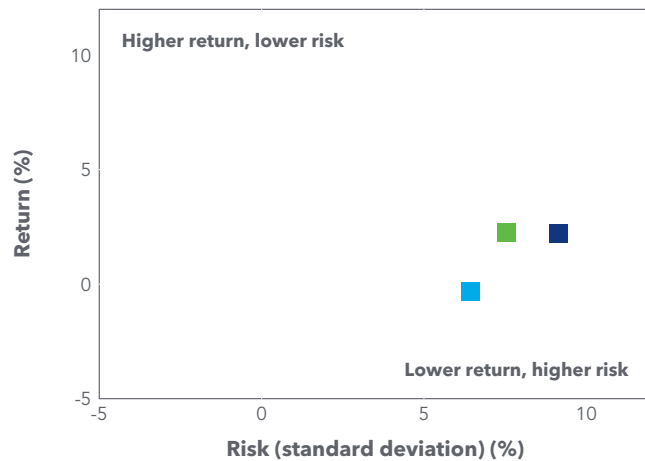
	3-year	5-year	7-year	10-year
<b>Standard deviation</b>	8.77	9.15	8.01	7.11
<b>Alpha</b>	2.80	2.78	2.01	2.12
<b>Beta</b>	1.02	1.02	0.94	0.88
<b>Correlation</b>	0.91	0.71	0.67	0.62
<b>R<sup>2</sup></b>	82.54	51.02	44.87	38.84

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. Bloomberg US Aggregate Bond Index

**See disclosure section for important definitions.**

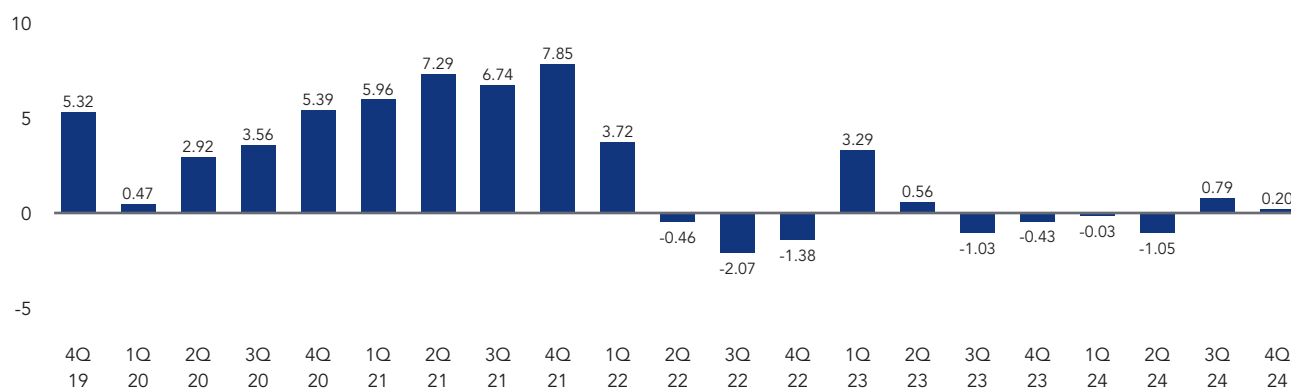
## 5-year risk/return



	Risk (%)	Return (%)
■ Federated Hermes Strategic Income Fund (IS)	9.15	2.21
■ Bloomberg US Aggregate Bond Index	6.42	-0.33
■ 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	7.55	2.26

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



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## Category rankings

Morningstar Multisector Bond Category		1-year	3-year	5-year	10-year
<b>R6 Shares</b>	Morningstar Category % Rank	56	76	54	-
	Morningstar Category Rank	201 of 366 funds	245 of 334 funds	156 of 286 funds	-
<b>IS Shares</b>	Morningstar Category % Rank	54	75	54	34
	Morningstar Category Rank	192 of 366 funds	243 of 334 funds	155 of 286 funds	69 of 198 funds
<b>A Shares</b>	Morningstar Category % Rank	60	81	63	49
	Morningstar Category Rank	221 of 366 funds	272 of 334 funds	186 of 286 funds	103 of 198 funds

Lipper Multi-Sector Income Funds		1-year	3-year	5-year	10-year
<b>R6 Shares</b>	Lipper Classification % Rank	42	64	45	-
	Lipper Classification Rank	159 of 378 funds	225 of 352 funds	136 of 306 funds	-
<b>IS Shares</b>	Lipper Classification % Rank	41	64	44	32
	Lipper Classification Rank	152 of 378 funds	223 of 352 funds	135 of 306 funds	65 of 206 funds
<b>A Shares</b>	Lipper Classification % Rank	46	71	53	46
	Lipper Classification Rank	173 of 378 funds	249 of 352 funds	162 of 306 funds	94 of 206 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 5.97% at maximum offering price for A Shares, 6.61% for R6 Shares, and 6.52% 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

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