Federated Hermes Institutional High Yield Bond Fund

6/30/20

Fund facts

Performance inception date
11/1/02

Benchmark
Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index

Morningstar category
High Yield Bond

Lipper classification
High Yield Funds Average

Fund assets
$8.5 billion

Ticker symbols
R6 Shares - FIHLX
Institutional Shares - FIHBX

Key investment team
Mark Durbiano, CFA®
Steven Wagner

Yields (%)

30-day yield (R6)	5.05
30-day yield (IS)	5.04

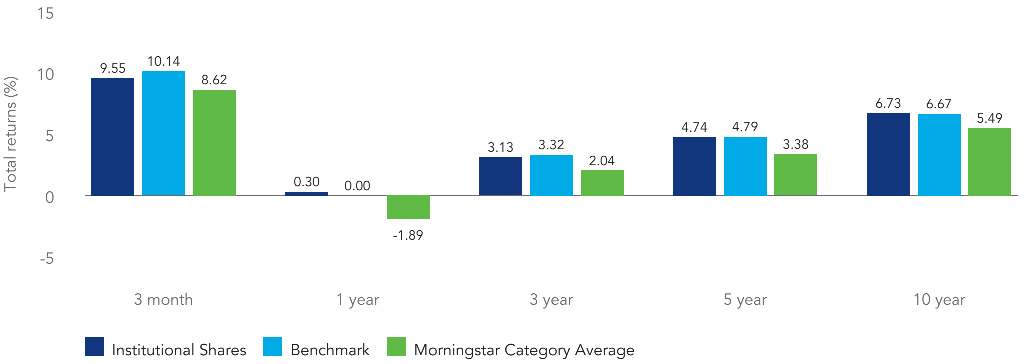
Fund description

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	Expense ratio* After waivers
R6 Shares	9.42	-3.82	0.31	3.10	4.74	6.69	7.78	0.51	0.49
Institutional Shares	9.55	-3.73	0.30	3.13	4.74	6.73	8.11	0.55	0.50
Benchmark	10.14	-3.83	0.00	3.32	4.79	6.67	–	–	–



Calendar year returns (%)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Institutional Shares	14.97	-2.84	7.16	15.09	-2.29	3.08	7.31	15.16	5.68	14.78
Benchmark	14.32	-2.08	7.50	17.13	-4.43	2.46	7.44	15.78	4.96	14.94
Morningstar Category Average	12.62	-2.59	6.47	13.30	-4.01	1.11	6.90	14.67	2.83	14.24

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 FederatedInvestors.com. 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 1/1/21 or the date of the fund's next effective prospectus.**

Federated Hermes

Investment approach

Consistency of people	Consistency of process
• The high-yield team is comprised of 14 investment professionals with an average of 20 years of investment experience, 11 of 14 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.	• 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.

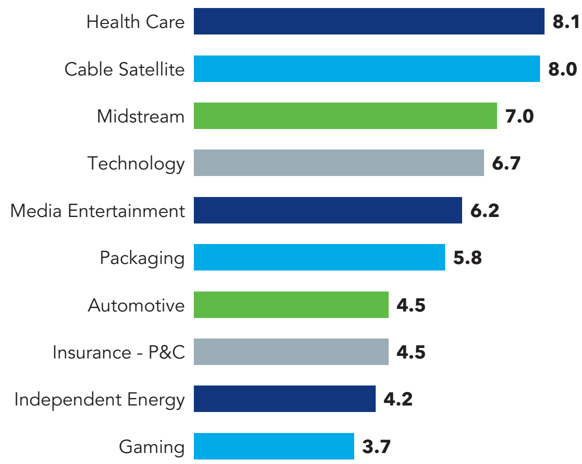
Portfolio statistics

Weighted average effective maturity	4.4 Yrs.
Weighted average duration to worst	3.5 Yrs.
Weighted average coupon	6.16%
Weighted average bond price	$98.24
Weighted average yield to worst	6.78%

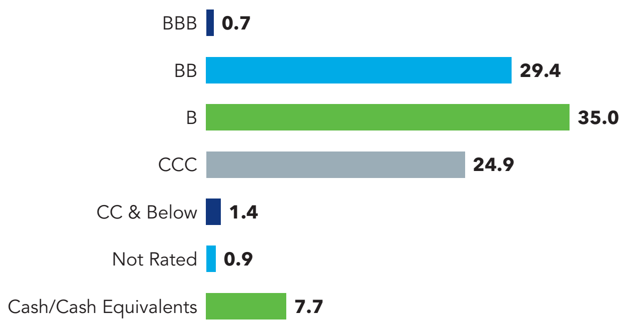
Top holdings (%)

CSC Holdings LLC	2.3
Bausch Health Cos, Inc.	2.2
Charter Communications, Inc.	2.1
Ford Motor Co.	1.6
HCA Holdings, Inc.	1.5
Centene Corp.	1.4
Hub International Ltd.	1.3
Tenet Healthcare Corp.	1.3
Targa Resources Partners LP / Targa Resources Partners Finance Corp.	1.2
Ardagh Group SA	1.1
Total % of Portfolio	16.0

Top 10 sector weightings (%)



Quality breakdown[1] (%)



Portfolio composition is based on net assets at the close of business on 6/30/20 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 June 30, 2020, the high-yield market outperformed the investment-grade bond market. For example, the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Bond Index (BBC2%HYBI) returned 10.14% versus a 2.90% return for the Bloomberg Barclays Aggregate Bond Index (Aggregate), a measure of high-quality bond performance.

Four factors caused the substantial recovery in the high-yield market after a very weak first quarter of 2020. First, the high-yield market entered the quarter at attractive valuations given the substantial spread widening that occurred in the first quarter. Yield spreads began the quarter at 1,038 basis points versus a long-term median spread level of 508 basis points. In short, the market was extremely oversold. Second, historic levels of global fiscal and monetary stimulus in response to the coronavirus culminating in the Fed's program to purchase corporate bonds including high-yield fallen angels and ETFs was a strong positive influence. Third, a substantial rebound in oil prices provided some support to the Energy sector, especially fallen-angel oil companies. Finally, hopes that the worst of the Covid-19 virus both from a health and economic standpoint had passed buoyed investors' spirits. While virus cases did begin to escalate near the end of the quarter and many states reversed reopening moves, the severity of cases seemed to be less than the initial wave. The impact of these factors can be seen in the yield spread between the Credit Suisse High Yield Bond Index and Treasury securities with comparable maturities, which started the period at 1,038 basis points and ended the period at 711 basis points.

Within the high-yield market, the strongest-performing major industries relative to the BBC2%HYBI were: Independent Energy, Midstream, Oil Field Services, Automotive and Gaming. The worst-performing major industries relative to the BBC2%HYBI were: Aerospace & Defense, Cable & Satellite, Leisure, Pharmaceuticals and Health Insurance. Interestingly, from a quality prospective, the BB-rated sector led the way with an 11.48% total return. Usually BB's lag in strong absolute return quarters but investors' preference for higher quality coupled with the dominate performance of BB-rated fallen angels with CCC like yields at the beginning of the period counteracted this norm. The CCC-rated sector followed with a return of 9.10% while the B-rated sector trailed with a not-too-shabby 8.64% return.

Performance

The fund underperformed the BBC2%HYBI. Two main factors drove the underperformance. First, the fund was underweight fallen angels in the Independent and Integrated Energy sectors, especially Occidental Petroleum, Continental Resources and Cenovus. These large names entered the benchmark at the end of March and logged substantial gains in the first week of April. Also, given the substantial absolute gains for the market, cash holdings were a substantial negative for the quarter. In addition, the fund was negatively impacted by its overweight to the underperforming Pharmaceutical and Media & Entertainment sectors. The fund did benefit from its underweight to the poor-performing Services, Wireline, Aerospace & Defense and Airline industry sectors.

The fund was positively impacted by security selection in the period. This was especially true in the Oil Field Services, Health Care, Consumer Cyclical Services and Automotive industry sectors. Specific high-yield issuers held by the portfolio that positively impacted performance relative to the BBC2%HYBI included: Summit Midstream, Team Health, USA Compression Partners, Crownrock and Schaeffler Verwaltung Zw. The fund was negatively impacted by security selection in the P&C Insurance and Midstream sectors. Specific high-yield issuers held by the portfolio that negatively impacted performance relative to the BBC2%HYBI included: Hub International, Jaguar Holdings, NFP Corp, TransDigm and CSC Holdings. 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 BBC2%HYBI.

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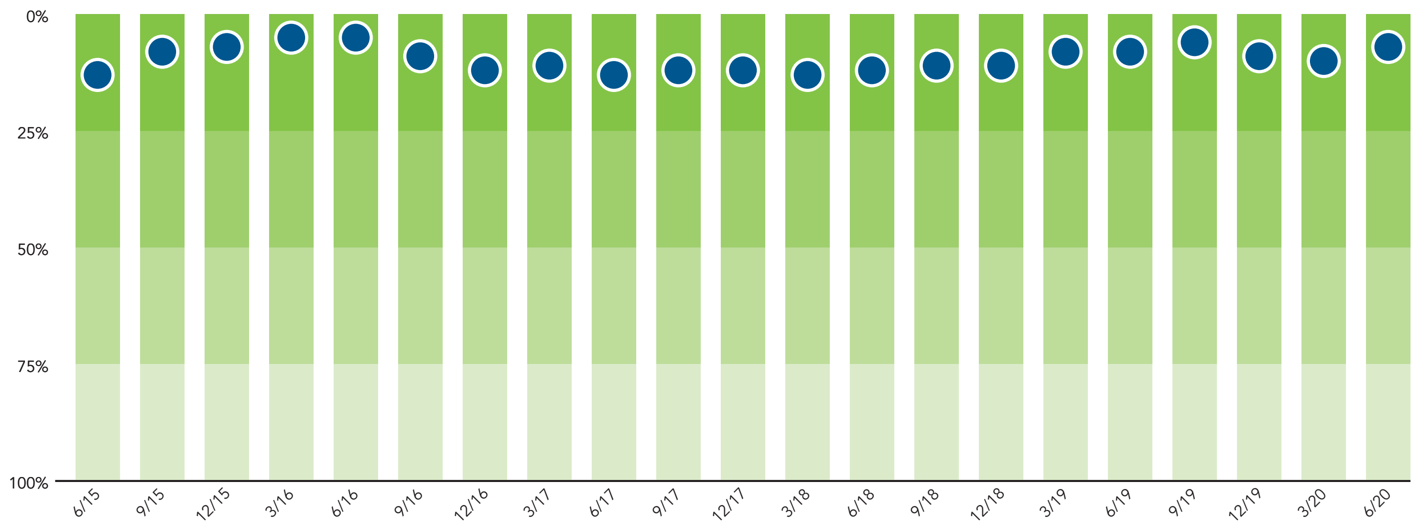
How we are positioned

The third quarter begins with uncertainty as the much-predicted second wave of coronavirus appears to have started much sooner than expected. Also, while the economy was improving as re-openings began, it still has a long way to go to recapture prior peak levels. This becomes all the more difficult if economic restrictions are re-imposed in response to the surge in virus cases. Unemployment, while declining from peak levels, remains high. Defaults for high-yield companies continue to climb. In addition, the approaching presidential election is coming into focus and promises to be contentious. On the plus side, the bonds of companies likely to default near term are priced at steep discounts, fiscal and monetary authorities are determined to fight the virus' negative economic impact and credit spreads are well above median. As always, the economy will hold the key for high-yield bond relative and absolute returns.

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.

% Rankings are for IS Shares.

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

Risk statistics

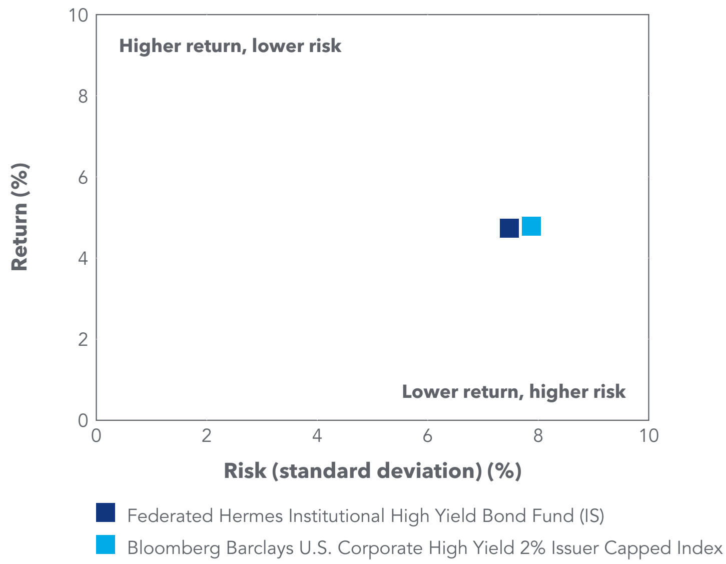
	3 year	5 year	7 year	10 year
Standard deviation	8.47	7.48	6.70	6.64
Alpha	-0.14	0.15	0.28	0.39
Beta	0.96	0.94	0.94	0.94
Up capture ratio	97.16	95.03	96.44	96.08
Down capture ratio	98.52	92.31	92.53	90.84
Sharpe ratio	0.17	0.47	0.62	0.92

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index

See disclosure section for important definitions.

5 year risk/return



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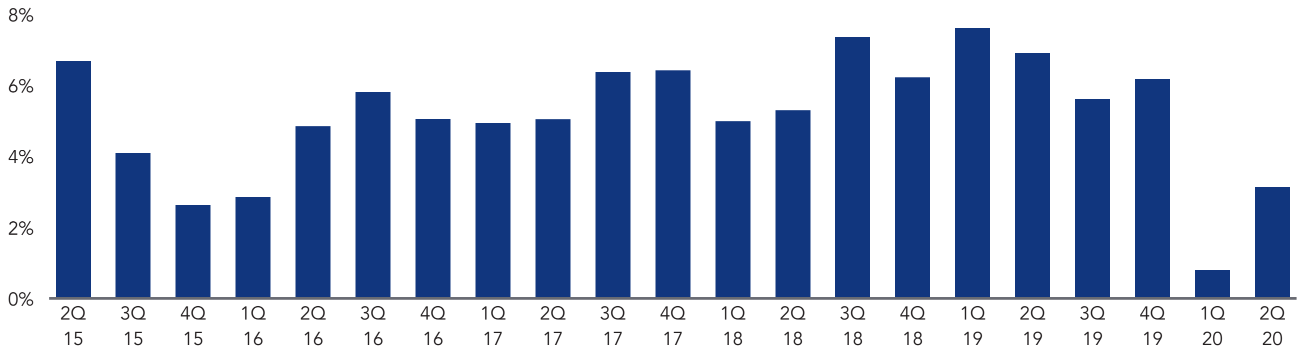
3 year rolling returns (IS)



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Category rankings

Morningstar High Yield Bond Category		1 year	3 year	5 year	10 year
R6 Shares	Morningstar Category % Rank	20	20	7	5
	Morningstar Category Rank	107 of 703 Funds	99 of 639 Funds	–	–
IS Shares	Morningstar Category % Rank	20	19	7	5
	Morningstar Category Rank	108 of 703 Funds	93 of 639 Funds	28 of 546 Funds	12 of 346 Funds

Lipper High Yield Funds Average		1 year	3 year	5 year	10 year
R6 Shares	Lipper Classification % Rank	17	19	–	–
	Lipper Classification Rank	86 of 510 Funds	84 of 457 Funds	–	–
IS Shares	Lipper Classification % Rank	18	17	7	5
	Lipper Classification Rank	87 of 510 Funds	77 of 457 Funds	27 of 393 Funds	13 of 281 Funds

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

As of June 29, 2020, the fund was renamed Federated Hermes Institutional High Yield Bond Fund.

"[1]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."

"The 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 5.03% for R6 Shares and 4.98% 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

Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index composed of securities from the Bloomberg Barclays 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 Barclays U.S. Corporate High Yield 2% Issuer Capped Index is an issuer-constrained version of the flagship U.S. 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.

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.

Ratings and rating agencies

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