

# Federated Hermes Floating Rate Strategic Income Fund

9/30/20

## Fund facts

### Performance inception date

R6 Shares	12/3/10
Institutional Shares	12/3/10
A Shares	2/23/11

### Benchmark

55% Credit Suisse Leveraged Loan Index/30% ICE BofA 1-Year U.S. Treasury Note Index/15% ICE BofA U.S. Dollar 1-Month Deposit Offered Rate Constant Maturity Index

### Morningstar category

Bank Loan

### Lipper classification

Loan Participation Funds

### Fund assets

\$622.0 million

### Ticker symbols

R6 Shares - FFRLX  
 Institutional Shares - FFRSX  
 A Shares - FR5AX  
 C Shares - FRICX

### Key investment team

Mark Durbiano, CFA®  
 Steven Wagner  
 B. Anthony Delserone Jr., CFA®  
 Todd Abraham, CFA®  
 Christopher McGinley

### Yields (%)

30-day yield (R6)	2.68
30-day yield (IS)	2.67
30-day yield (A)	2.40

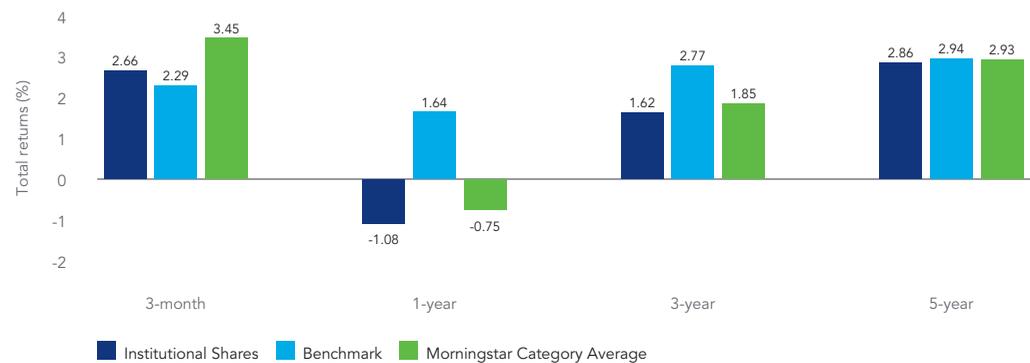
## Fund description

The fund seeks to provide total return consistent with current income and low interest-rate volatility. It invests primarily in a strategic mix of floating-rate fixed-income investments, which pay interest at rates that increase or decrease with changes in market rates.

## Average annual total returns (%)

Performance shown is before tax.

	3-month	YTD	1-year	3-year	5-year	Since inception	Expense ratio* Before waivers	After waivers
<b>R6 Shares</b>	2.55	-2.73	-1.18	1.59	2.82	2.81	0.79	0.73
<b>Institutional Shares</b>	2.66	-2.63	-1.08	1.62	2.86	3.18	0.87	0.74
<b>A Shares (NAV)</b>	2.59	-2.81	-1.35	1.29	2.52	2.76	1.10	0.99
<b>A Shares (MOP)</b>	1.58	-3.80	-2.35	0.95	2.31	2.65	1.10	0.99
<b>Benchmark</b>	2.29	0.46	1.64	2.77	2.94	-	-	-



## Calendar year returns (%)

	2019	2018	2017	2016	2015	2014	2013	2012	2011
<b>Institutional Shares</b>	6.69	0.35	3.53	7.80	1.05	1.38	4.30	6.64	2.09
<b>Benchmark</b>	5.71	1.51	2.66	5.66	-0.13	1.21	3.45	5.21	1.23
<b>Morningstar Category Average</b>	7.45	-0.26	3.48	9.25	-1.25	0.57	5.68	9.43	1.63

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 [FederatedInvestors.com](http://FederatedInvestors.com). Maximum offering price figures reflect the maximum sales charge of 1% 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 6/1/21 or the date of the fund's next effective prospectus.

## Investment approach

High yield	International	Investment grade
Leveraged loans, high-yield corporates and high-yield floaters	Trade finance, international loans and corporates	Adjustable rate mortgages, corporate floaters and floating-rate asset backed
<ul style="list-style-type: none"> <li>Low correlation with other fixed-income asset classes</li> <li>Loans typically positioned senior and secured in leveraged company's debt structure</li> <li>High current yield potential with modest interest duration risk</li> </ul>	<ul style="list-style-type: none"> <li>Trade finance instruments primarily dollar based and pure floating rate</li> <li>Offers limited credit duration risk</li> <li>Less liquidity than loans</li> </ul>	<ul style="list-style-type: none"> <li>Diversified asset mix in higher quality floating-rate securities</li> <li>Source of liquidity for the portfolio</li> <li>Low and negative correlation with other sectors of the strategy</li> </ul>

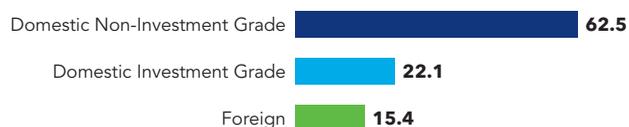
## Portfolio statistics

Weighted average effective duration	1.4 Yrs.
Weighted average bond price	\$97.08
Number of securities	479

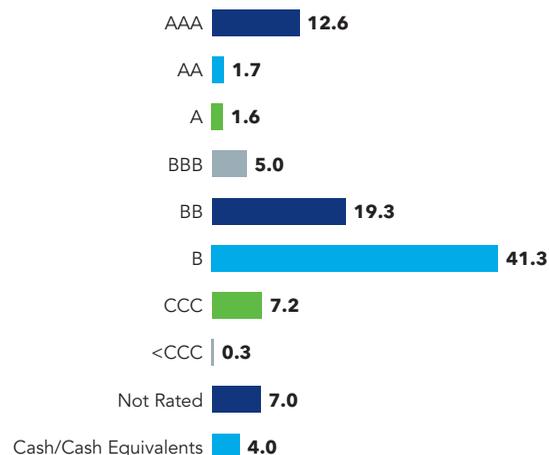
## Top holdings (%)

FHLMC 4911 FB, 9/25/2049	2.2
FNMA 2020-36 FH, 6/25/2050	1.6
AmWINS Group, Inc., Term Loan B - 1st Lien, 01/25/2024	0.9
FNMA 2019-59 FA, 10/25/2049	0.9
Stratus CLO, Ltd. 2020-1A, A, 05/01/2028	0.9
FNMA 2018-35 FA, 5/25/2048	0.8
FNMA 2020-27 FD, 5/25/2050	0.8
TNETBB TL 1L USD, Term Loan - 1st Lien, 04/30/2028	0.8
Endo Luxembourg Fi TLB 1L, Term Loan - 1st Lien, 04/27/2024	0.7
FNMA 2019-24 BF, 5/25/2049	0.7
Total % of portfolio	10.3

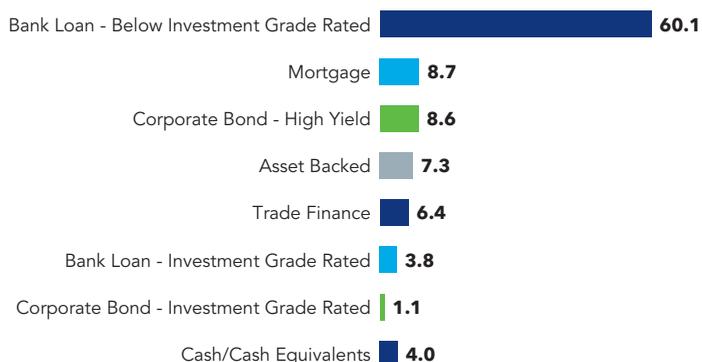
## Sector weightings<sup>1</sup> (%)



## Quality breakdown<sup>1,2</sup> (%)



## Asset distribution<sup>1</sup> (%)



Portfolio composition is based on net assets at the close of business on 9/30/20 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.

## Investment review

### Market overview

The U.S. institutional leveraged-loan market continued its recovery and generated a strong total return for the third quarter of 2020. For example, the total return on the Credit Suisse Leveraged Loan Index (CSLLI) was 4.13% for the period. Loan risk spreads, as measured by the discount margin (3-year), compressed further by tightening to 5.79% by the end of September, compared to 7.00% at the beginning of the quarter.

During the quarter, several key drivers fueled strong leveraged loan returns in the U.S. Broadly speaking, riskier asset classes delivered strong absolute returns as investors' confidence in a sharp economic rebound from the depths of the first half continued to blossom. Growing recovery expectations were supported by the effects of unprecedented monetary and fiscal stimulus enacted in the first half, reports of positive momentum in Covid-19 vaccine development, and the perceived ability for U.S. corporations to adapt under an unforeseen and challenging operating environment. Leveraged-finance market investors were encouraged by debtors' ability to marshal liquidity and fortify balance sheets in order to "ride out" the coronavirus tsunami. Predictably, the issuer default rate in leveraged-finance markets moved materially higher, but the experience through the third quarter was limited to companies that already carried weak credit profiles as the economy entered its downturn earlier this year. While the leveraged-loan market did not benefit directly from Federal Reserve (Fed) bond purchase programs, several other liquidity sources provided valuation support. Specifically, collateralized loan obligation (CLO) warehouse activity, multi-asset institutional managers, non-traditional credit investors and well-capitalized U.S. commercial banks were important sources of demand for leveraged-loan assets during the quarter.

With the Fed funds target rate anchored at near-zero for the foreseeable future, 3-month Libor, a common rate benchmark for leveraged loans, ended the quarter at 0.23%. Given the market's anticipation of low rates for an extended amount of time, Libor floors were reintroduced more broadly to the loan market during the quarter; floors ranged from 0.50% to 1.00% among recently syndicated loans that carried Libor floors.

### Performance

Federated Hermes Floating Rate Strategic Income Fund Institutional Shares returned 2.66% at net asset value for the quarter ending Sept. 30, outperforming its higher quality blended benchmark comprised of the following mix: 55% CSLLI; 30% 1-year U.S. Treasury Note Index and 15% One-Month Deposit Rate.

The fund's overweight to the domestic non-investment-grade sector was a primary driver of outperformance relative to the blended benchmark. The core loan portfolio sleeve of the fund underperformed the CSLLI. This was primarily due to the strong outperformance of the lowest quality tiers of the index throughout the quarter. Positive contribution from short duration high-yield corporate bonds partially mitigated loan underperformance.

Fund returns in both the foreign and domestic investment-grade sectors outperformed the respective components of the blended benchmark. The trade-finance portfolio generated a positive return, which contributed to the outperformance in the foreign fixed-income sector.

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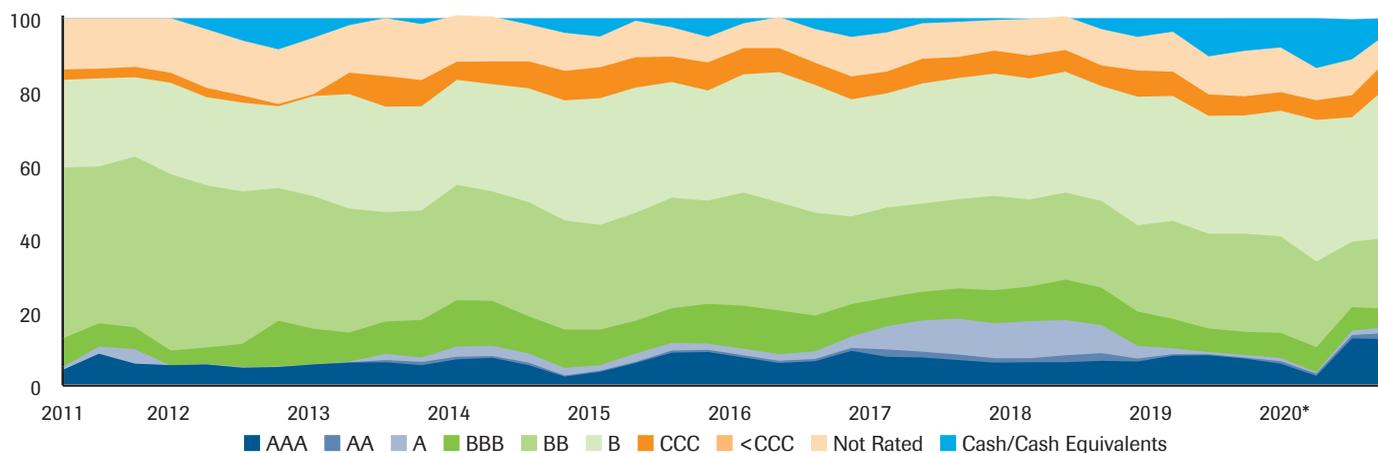
### How we are positioned

Fund assets are allocated across three broad sectors: domestic non-investment-grade (leveraged loans and high-yield corporates); foreign fixed income (trade finance and loan/corporate); and domestic investment-grade (agency mortgage, asset-backed and loan/corporate). Sector allocation and security selection are key drivers of performance relative to the fund's blended benchmark. The multi-sector approach enables fund management to position assets across a risk and return spectrum based upon valuation metrics, fundamental credit conditions and macroeconomic assessment.

As of the end of the third quarter of 2020, the fund increased its overweight position to the domestic non-investment-grade sector despite expectations that fundamental credit weakness will continue for companies in a variety of coronavirus-impacted industries. Corporate default experience was more manageable through the third quarter than earlier feared in the first half of 2020. With that said, fund management anticipates leveraged-finance markets may experience volatility in the short run due to the prospect for a contested presidential election and ongoing coronavirus concerns as case numbers were moving higher as of quarter end. In addition, elevated corporate default activity relative to historical averages likely will continue. Despite the potential for volatility in risk markets and elevated defaults, fund management believes loan market valuation levels adequately compensate the investor for the macro uncertainty and ongoing credit risks.

*See disclosure section for important disclosures and definitions.*

## Historical credit quality (%)<sup>2</sup>



\* As of 9/30/20

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## Risk statistics

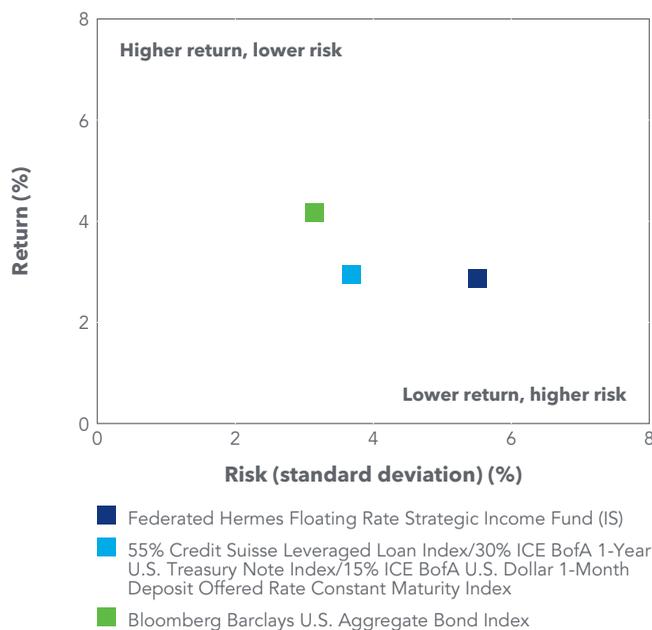
	3-year	5-year	7-year	10-year
<b>Standard deviation</b>	6.92	5.51	4.71	-
<b>Correlation</b>	1.00	0.99	0.99	-
<b>R<sup>2</sup></b>	99.05	98.52	97.98	-
<b>Sharpe ratio</b>	0.00	0.30	0.40	-

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. 55% Credit Suisse Leveraged Loan Index/30% ICE BofA 1-Year U.S. Treasury Note Index/15% ICE BofA U.S. Dollar 1-Month Deposit Offered Rate Constant Maturity Index

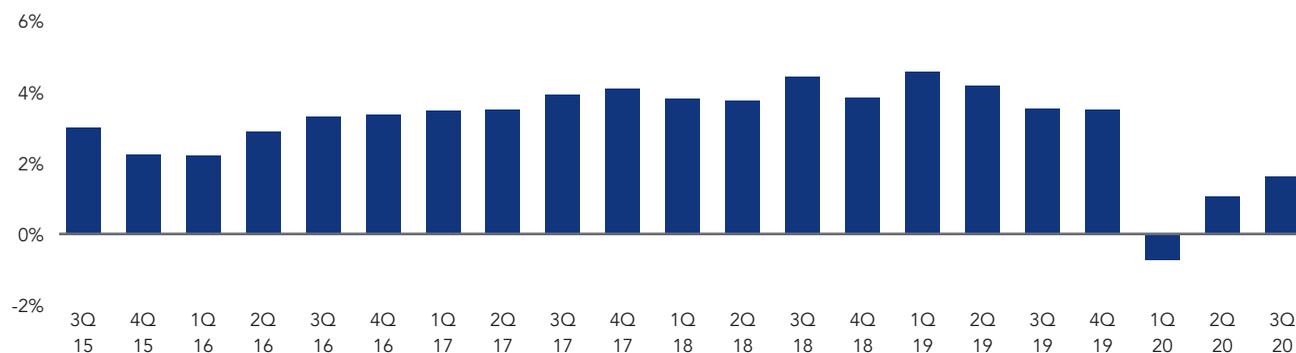
See disclosure section for important definitions.

## 5-year risk/return



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## 3-year rolling returns (IS)



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## Category rankings

### Morningstar Bank Loan Category

	1-year	3-year	5-year
<b>R6 Shares</b>			
Morningstar Category % Rank	72	72	62
Morningstar Category Rank	164 of 247 funds	152 of 226 funds	–
<b>IS Shares</b>			
Morningstar Category % Rank	72	70	59
Morningstar Category Rank	161 of 247 funds	148 of 226 funds	113 of 203 funds
<b>A Shares</b>			
Morningstar Category % Rank	76	78	76
Morningstar Category Rank	174 of 247 funds	169 of 226 funds	147 of 203 funds

### Lipper Loan Participation Funds

	1-year	3-year	5-year
<b>R6 Shares</b>			
Lipper Classification % Rank	66	66	–
Lipper Classification Rank	165 of 250 funds	148 of 224 funds	–
<b>IS Shares</b>			
Lipper Classification % Rank	65	64	56
Lipper Classification Rank	162 of 250 funds	144 of 224 funds	112 of 200 funds
<b>A Shares</b>			
Lipper Classification % Rank	70	74	72
Lipper Classification Rank	175 of 250 funds	166 of 224 funds	144 of 200 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 Floating Rate Strategic Income Fund

As of June 29, 2020, the fund was renamed Federated Hermes Floating Rate Strategic Income Fund.

<sup>1</sup>The breakdown does not give effect to the impact of derivative investments by the fund, including futures.

<sup>2</sup>The ratings agencies that provided the ratings are Standard & Poor's, 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") 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 2.61% for R6 Shares, 2.55% for Institutional Shares and 2.29% for A Shares.

The fund's R6 Shares commenced operations on December 27, 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 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 the fund's 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.

International investing involves special risks, including currency risk, increased volatility, political risks and differences in auditing and other financial standards.

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.

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.

Variable and floating-rate loans securities generally are less sensitive to interest rate changes, but may decline in value if their interest rates do not rise as much or as quickly as interest rates in general. Conversely, variable and floating-rate loans and securities generally will not increase in value as much as fixed-rate debt instruments if interest rates decline.

In addition to the risks associated with debt instruments, such as credit, market, interest rate, liquidity and derivatives risks, bank loans are also subject to the risk that the value of the collateral securing a loan may decline, be insufficient to meet the obligations of the borrower, or be difficult to liquidate.

### Definitions

**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.

**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.

**Weighted average bond price** is the weighted average of all individual bond prices 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.

**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.

**Credit Suisse Leveraged Loan Index** is designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market. Average values are computed over the Index for coupon, current yield, initial spread and price. The average coupon, current yield and initial spread are weighted by market value (amount outstanding multiplied by the price) at the end of the measurement period for each loan currently paying interest in the Index. Total return is computed for each loan, which is the percent change in the value of each loan during the measurement period. Total return is the sum of three components: principal, interest and reinvestment return.

**ICE BofA 1-Year U.S. Treasury Note Index** is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding two-year Treasury note that matures closest to, but not beyond, one year from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date.

**ICE BofA U.S. Dollar 1-Month Deposit Offered Rate Constant Maturity Index** is an independent calculation of the ICE BofA 1-Month London Interbank Offered Rate (LIBOR). The ICE BofA 1-Month LIBOR is a widely used benchmark for short term interest rates, providing an indication of the average rates at which LIBOR panel banks could obtain wholesale, unsecured funding for set periods in particular currencies.

Indexes are unmanaged and cannot be invested in directly.

### Ratings and rating agencies

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