

# Federated Hermes Institutional High Yield Bond Fund

12/31/20

## 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

\$10.0 billion

### Ticker symbols

R6 Shares - FIHLX

Institutional Shares - FIHBX

### Key investment team

Mark Durbiano, CFA®

Steven Wagner

### Yields (%)

30-day yield (R6) 3.52

30-day yield (IS) 3.51

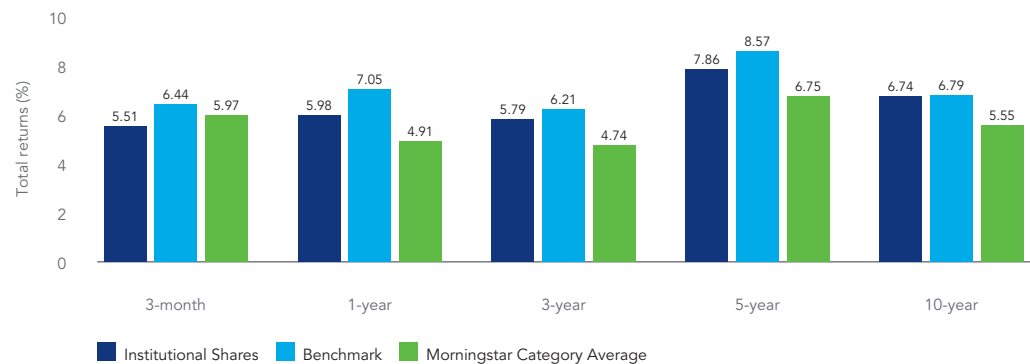
## Fund description

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>	5.51	5.99	5.99	5.80	7.89	6.72	8.14	0.52	0.49
<b>Institutional Shares</b>	5.51	5.98	5.98	5.79	7.86	6.74	8.45	0.56	0.50
<b>Benchmark</b>	6.44	7.05	7.05	6.21	8.57	6.79	-	-	-



## Calendar year total returns (%)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
<b>Institutional Shares</b>	5.98	14.97	-2.84	7.16	15.09	-2.29	3.08	7.31	15.16	5.68
<b>Benchmark</b>	7.05	14.32	-2.08	7.50	17.13	-4.43	2.46	7.44	15.78	4.96
<b>Morningstar Category Average</b>	4.91	12.62	-2.59	6.47	13.30	-4.01	1.11	6.90	14.67	2.83

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). 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 1/1/22 or the date of the fund's next effective prospectus.

## Investment approach

### Consistency of people

- 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.

### 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.

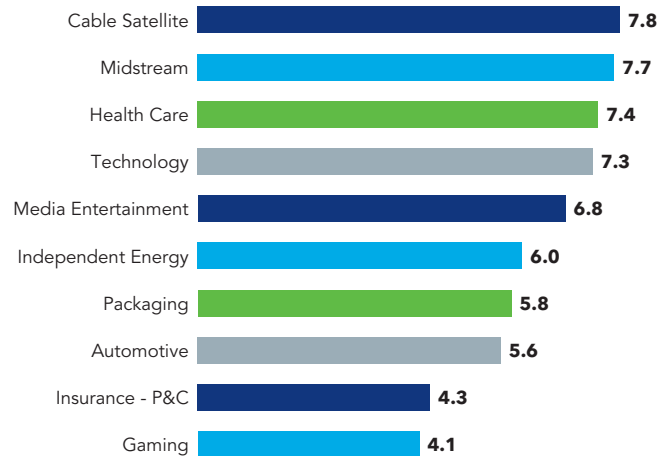
## Portfolio statistics

Weighted average effective maturity	3.2 yrs.
Weighted average duration to worst	2.6 yrs.
Weighted average coupon	5.92%
Weighted average bond price	\$104.77
Weighted average yield to worst	3.84%

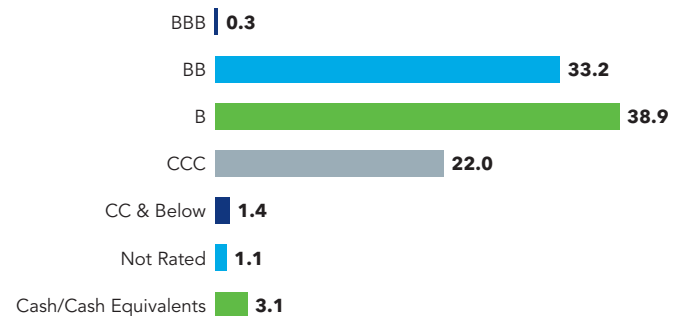
## Top holdings (%)

Ford Motor Co.	2.6
Bausch Health Cos, Inc.	2.3
Charter Communications, Inc.	2.1
CSC Holdings LLC	2.1
Occidental Petroleum Corp.	1.7
Centene Corp.	1.5
HCA Holdings, Inc.	1.5
TransDigm, Inc.	1.4
Tenet Healthcare Corp.	1.3
Hub International Ltd.	1.2
Total % of portfolio	17.7

## Top 10 sector weightings (%)



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



Portfolio composition is based on net assets at the close of business on 12/31/20 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 December 31, 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 6.44% versus a 0.67% return for the Bloomberg Barclays Aggregate Bond Index (Aggregate), a measure of high-quality bond performance.

The main driver of the strong relative and absolute performance of high-yield bonds in the quarter was the decline of uncertainty and confidence that the U.S. economy will continue to recover from the second quarter's historic decline in GDP. The U.S. elections occurred on November 3, and while highly contested and unique in many ways, the peaceful transition of power will occur as usual in January 2021. Despite the predicted winter surge in Covid-19 cases, intermediate term uncertainty has declined as vaccines were approved and are being distributed as 2020 comes to an end. On the economic front, the December surge in virus cases may shave a bit off of near-term growth but stimulative policy responses to economic weakness, distribution of vaccines and companies' more measured response to the increase in virus cases buoyed investor confidence about current and future economic growth. High-yield default rates seem to be peaking and a recovery in oil prices stabilized this large sector. 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 595 basis points and ended the period at 431 basis points.

Within the high-yield market, the lowest-quality high-yield bonds (to include semi-distressed issuers) and those most exposed to the virus performed the best while higher-quality issuers and sectors generally showed positive returns but trailed the overall market. The strongest-performing major industries relative to the BBC2%HYBI were: Oil Field Services, Independent Energy, Airlines, Aerospace & Defense and Finance Companies. The worst-performing major industries relative to the BBC2%HYBI were: Health Insurance, Cable & Satellite, Packaging, Building Materials and Technology. Quality sector returns were consistent with the risk-on environment as the lower-quality CCC-rated sector led the way with a return of 9.91%, followed by the B-rated sector at 5.83%. The higher-quality BB-rated sector trailed with a total return of 5.66%.

## Performance

The fund's Institutional Shares underperformed the BBC2%HYBI. The main driver of the fund's underperformance was its underweight to the highest-yielding/semi-distressed securities in the benchmark and its underweight to Covid-19 exposed issuers. Also, the fund was negatively impacted by its sector allocation. This was driven by its underweight to the strong-performing Airline sector and its overweight to the underperforming P&C Insurance and Packaging sectors. The fund was positively impacted by its underweight to the underperforming Wireless Communications sector. In addition, the fund was negatively impacted by its cash holdings given the strong absolute returns. 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.

The fund was also negatively impacted by security selection. This was especially true in the Health Care, Aerospace & Defense, Restaurant, Finance Companies and Technology sectors. Specific high-yield issuers held by the portfolio that negatively impacted performance relative to the BBC2%HYBI included: Hub International, Restaurant Brands International, CSC Holdings, Allied Universal and Dell. The fund was positively impacted by security selection in the Independent Energy, Midstream and Media & Entertainment sectors. Specific high-yield issuers held by the portfolio that positively impacted performance relative to the BBC2%HYBI included: Callon Petroleum, Antero Midstream, Western Midstream, QEP Resources and Team Health.

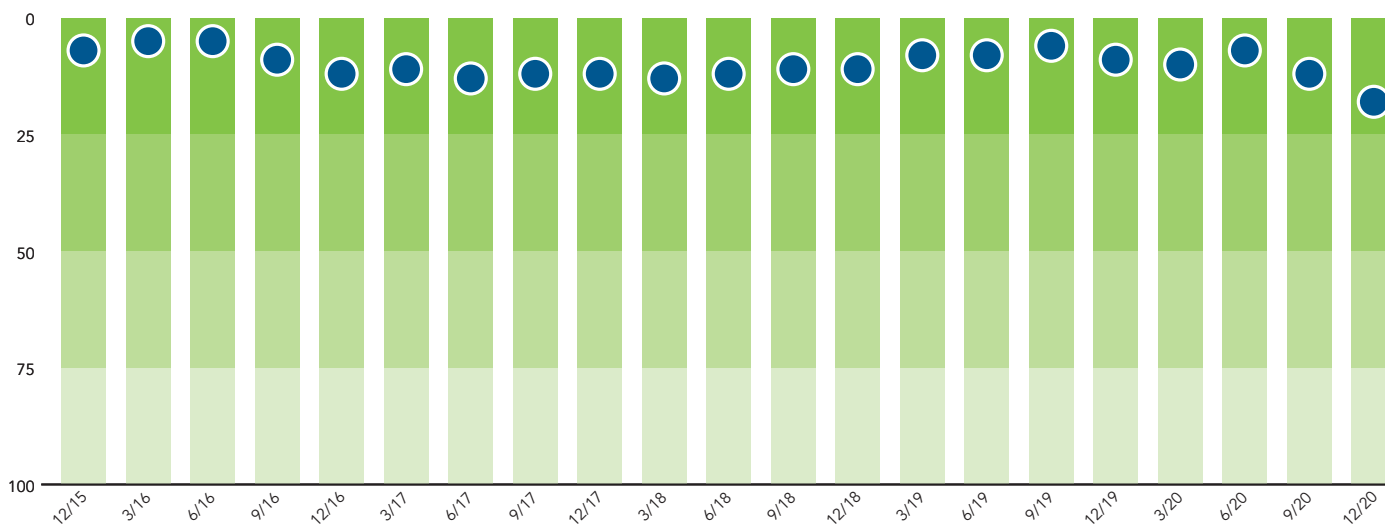
*Performance quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than what is stated. To view performance current to the most recent month-end, and for after-tax returns, contact us or visit [FederatedInvestors.com](https://www.federatedinvestors.com).*

## How we are positioned

As we exit 2020, the near-term future looks bright for the relative performance of high-yield bonds. The worst of the Covid-19 virus will hopefully soon be behind us. Monetary and fiscal policy remain extremely stimulative. Corporate earnings should rebound nicely in 2021, and we believe high-yield default rates should fall substantially in 2021. While valuations are not cheap, we believe high-yield credit spreads are poised to move lower. Risks to high yield as we enter 2021 would include a lack of progress in mitigating the impact of Covid-19 or a substantial decline in energy prices. Also, while an increase in intermediate-term interest rates would initially lead to good relative performance, it could lead to negative absolute returns and increased short-term volatility.

*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 IS Shares.

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

## Risk statistics

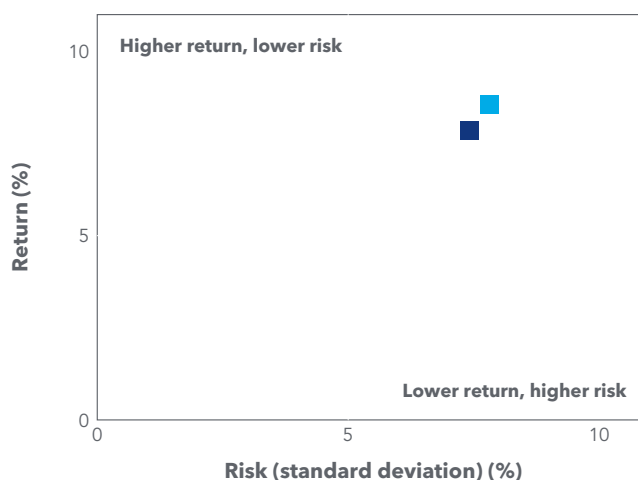
	3-year	5-year	7-year	10-year
<b>Standard deviation</b>	9.02	7.41	6.92	6.69
<b>Alpha</b>	-0.23	-0.26	0.21	0.31
<b>Beta</b>	0.96	0.94	0.94	0.94
<b>Up capture ratio</b>	96.02	93.67	95.38	95.46
<b>Down capture ratio</b>	98.31	96.57	92.28	91.17
<b>Sharpe ratio</b>	0.47	0.89	0.69	0.91

Sources: Federated Hermes, Morningstar, Inc.

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

See disclosure section for important definitions.

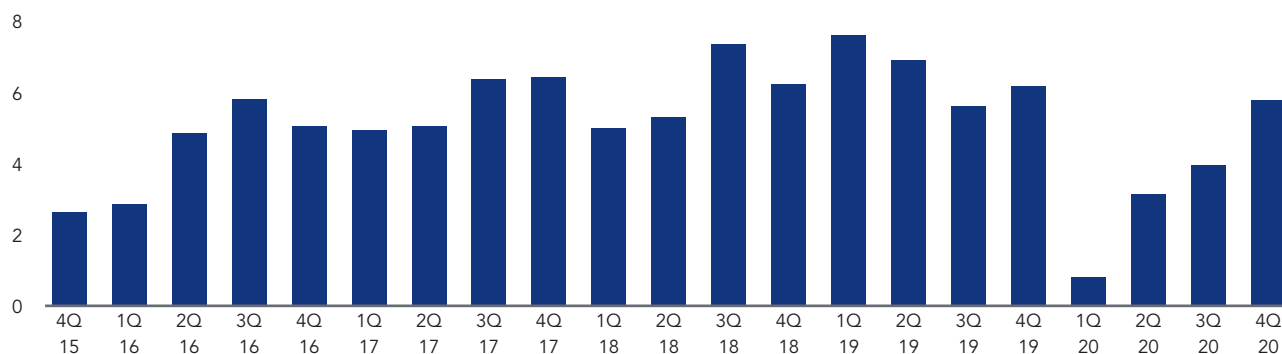
## 5-year risk/return



- Federated Hermes Institutional High Yield Bond Fund (IS)
- Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index

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).

## 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 [FederatedInvestors.com](http://FederatedInvestors.com).

## Category rankings

### Morningstar High Yield Bond Category

		1-year	3-year	5-year	10-year
<b>R6 Shares</b>	Morningstar Category % Rank	35	22	16	6
	Morningstar Category Rank	226 of 676 funds	113 of 627 funds	–	–
<b>IS Shares</b>	Morningstar Category % Rank	36	22	18	7
	Morningstar Category Rank	229 of 676 funds	114 of 627 funds	87 of 554 funds	19 of 351 funds

### Lipper High Yield Funds Average

		1-year	3-year	5-year	10-year
<b>R6 Shares</b>	Lipper Classification % Rank	39	22	–	–
	Lipper Classification Rank	194 of 508 funds	99 of 463 funds	–	–
<b>IS Shares</b>	Lipper Classification % Rank	39	22	18	7
	Lipper Classification Rank	196 of 508 funds	102 of 463 funds	70 of 399 funds	17 of 282 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.

<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.

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 3.50% for R6 Shares and 3.46% 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 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.

### Ratings and rating agencies

Lipper Categories: Data Source: Lipper, A Reuters Company. Copyright 2021© 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. ©2021 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.