Federated Hermes Strategic Income Fund

12/31/20

Fund facts

Performance inception date

5/4/94

Benchmark 1

Bloomberg Barclays U.S. Aggregate Bond Index

Benchmark 2

35% Bloomberg Barclays U.S. Mortgage Backed Securities Index/40% Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index/25% Bloomberg Barclays Emerging Markets USD Aggregate Index

Morningstar category

Multisector Bond

Lipper classification

Multi-Sector Income Funds

Fund assets

$655.7 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

Steven Wagner

Mark Durbiano, CFA®

Yields (%)

30-day yield (R6)	3.91
30-day yield (IS)	3.90
30-day yield (A)	3.42

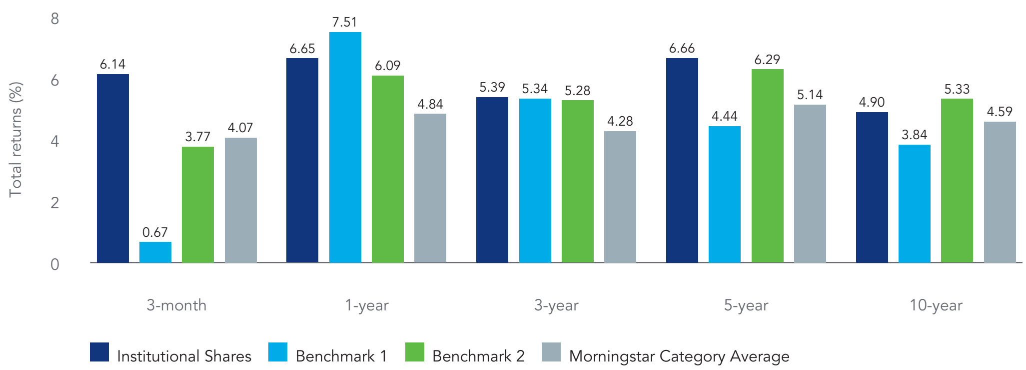
Fund description

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* Before waivers	Expense ratio* After waivers
R6 Shares	6.21	6.73	6.73	5.41	6.60	4.76	6.12	0.76	0.64
Institutional Shares	6.14	6.65	6.65	5.39	6.66	4.90	6.53	0.84	0.65
A Shares (NAV)	6.01	6.37	6.37	5.06	6.31	4.62	6.41	1.09	0.97
A Shares (MOP)	1.29	1.60	1.60	3.45	5.33	4.14	6.23	1.09	0.97
Benchmark 1	0.67	7.51	7.51	5.34	4.44	3.84	–	–	–
Benchmark 2	3.77	6.09	6.09	5.28	6.29	5.33	–	–	–



Calendar year total returns (%)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Institutional Shares	6.65	13.15	-2.99	6.43	10.76	-2.90	3.20	0.07	10.82	5.20
Benchmark 1	7.51	8.72	0.01	3.54	2.65	0.55	5.97	-2.02	4.21	7.84
Benchmark 2	6.09	11.20	-1.07	5.89	9.77	-0.92	4.31	1.36	11.54	6.01
Morningstar Category Average	4.84	9.80	-1.52	6.07	7.52	-2.18	3.63	1.87	11.71	3.37

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. 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 2/1/21 or the date of the fund's next effective prospectus.**

Federated Hermes

Investment approach

Flexible, multi-sector approach	Consistent, repeatable investment process	Tenured team with long-term results
• 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	• 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	• Team-based approach focused by sector to extract value from each step of the process • Federated Hermes' fixed-income philosophy and process has a 45-year heritage • Senior fixed-income management team averages 27 years of experience, and team members have worked together at Federated Hermes for 22 years

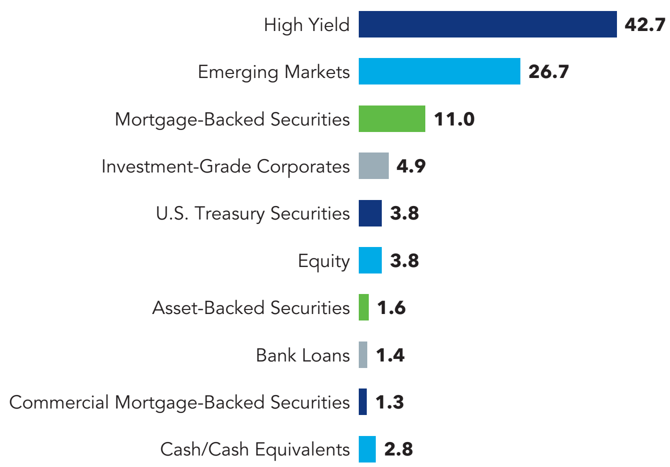
Portfolio statistics

Weighted average effective maturity	5.6 yrs.
Weighted average effective duration	3.5 yrs.
Weighted average coupon	5.09%
Weighted average yield to maturity	4.16%

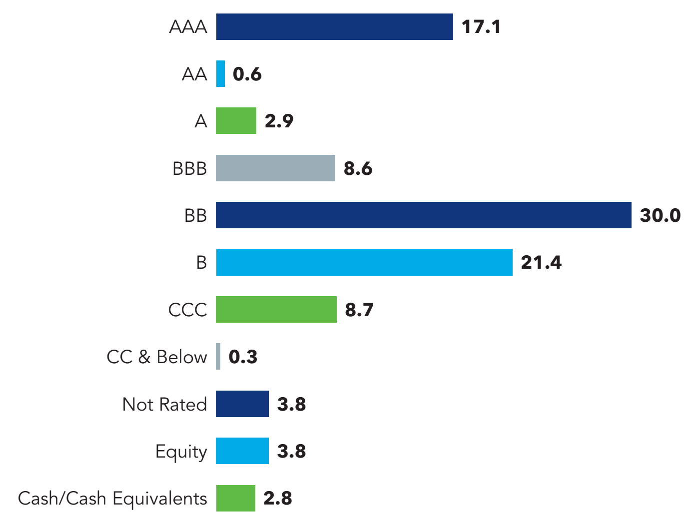
Top holdings (%)

High Yield Bond Core Fund	41.6
Emerging Markets Core Fund	27.6
Mortgage Core Fund	11.6
iShares iBoxx High Yield Corporate Bond ETF	3.7
U.S. Treasury Note, 1.625% due 6/30/21	3.1
Bank Loan Core Fund	1.6
U.S. Treasury Note, 0.625% due 8/15/30	0.7
Hyundai Capital America, 3.000% due 2/10/27	0.5
Occidental Petroleum Corp., 2.900% due 8/15/24	0.3
Entercom Communication Corp.	0.2
Total % of portfolio	90.9

Sector weightings (%)



Quality breakdown[1] (%)



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.

Highlights

- The strong recovery continued, but job growth slowed as Covid-relief stimulus programs expired
- Longer-dated Treasury yields rose, and the yield curve steepened
- The markets began to price in higher inflation expectation, with the 10-year Treasury Inflation Protected Securities (TIPS) breakeven climbing 35 basis points
- The U.S. dollar depreciated relative to all other G-10 currencies as interest-rate and growth differentials continued to converge

Looking back

Financial markets extended gains during the fourth quarter, with the major indexes setting a series of new highs. In fixed income, credit products such as investment-grade, high-yield and emerging-market (EM) bonds also had strong returns. For context, the spread to worst on the Credit Suisse U.S. High Yield Index II began 2020 at 415 basis points, reached a peak of 1,417 on March 23, 2020 and finished the year at 431 basis points. Similarly, investment-grade yield spreads relative to comparable maturity Treasuries ended the year at 94.6 basis points, 2 basis points tighter over the 12 months.

While financial markets have recovered to pre-pandemic levels or better, the real economy appears to need more time and stimulus before it returns to its full potential. In the labor markets, the month-over-month improvement in employment slowed during the final three months of the year, with December nonfarm payrolls shrinking for the first time since April. The hiring deceleration likely was tied to increasing cases of Covid and the delay in passing new pandemic relief.

While many economists, including at the Federal Reserve, see elevated unemployment as an indication inflation will remain contained for years, there was a notable increase in commodity prices during the quarter. Oil rose 23%, breaking $50 per barrel for the first time since February 2020, and similar cost increases occurred in metals and food. Demand for TIPs continues to grow, lifting the breakeven rate to almost 2% for the first time since November 2018.

Among fixed-income asset classes during the reporting period, U.S. Treasury bonds had very low nominal returns and underperformed spread sectors of the fixed-income markets. For example, the total return on the 2-, 5-, 10- and 30-year Treasuries were 0.04%, -0.22%, -1.91% and -4.18% respectively.

Within high yield, the lowest-quality issuers and those most exposed to the virus performed best, while higher-quality issuers and sectors generally trailed the overall market. 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%.

Investment-grade corporates also performed well with the Bloomberg Barclays U.S. Corporate Index returning 3.05% over the three months with an excess return of 4.11% relative to similar maturity Treasury bonds. The lower-quality BBB investment-grade credit was particularly strong during the quarter, returning 3.99%. Higher-quality single-A bonds returned 2.22% and AA-rated bonds returned 1.74%.

EM debt, as measured by the Bloomberg Barclays Emerging Market USD Aggregate Index, returned 4.50% for the quarter with an excess return of 5.38% relative to similar maturity Treasury bonds. EM corporate issuers underperformed sovereign issues. Regionally, higher credit rated Asian sovereigns such as China and South Korea underperformed while lower-rated Latin America sovereigns in Mexico and Brazil outperformed on a relative basis.

Agency mortgage-backed securities (MBS) outperformed U.S. Treasuries with a nominal return of 0.24% and an excess return relative to similar maturity Treasury bonds of 0.34%.

Performance

Federated Hermes Strategic Income Fund Institutional Shares had a total return at net asset value (NAV) of 6.14%, outperforming its Blended Benchmark that had a return of 3.77% during the quarter. The fund's return outperformed the Bloomberg Barclays U.S. Aggregate Bond Index, a commonly used barometer of performance for the broad high-quality bond market, which returned 0.67% during the quarter.

Performance contributors

- Overweight positioning in U.S. high yield, investment-grade corporate and EM bonds
- A 3.5% equity allocation
- Positioned for a steepening yield curve
- Positioned for a decline in the U.S. dollar against other G-10 currencies
- Good security selection in the EM, investment-grade credit and commercial MBS sectors

Performance detractors

- Underweight to high-yield securities

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 FederatedInvestors.com.

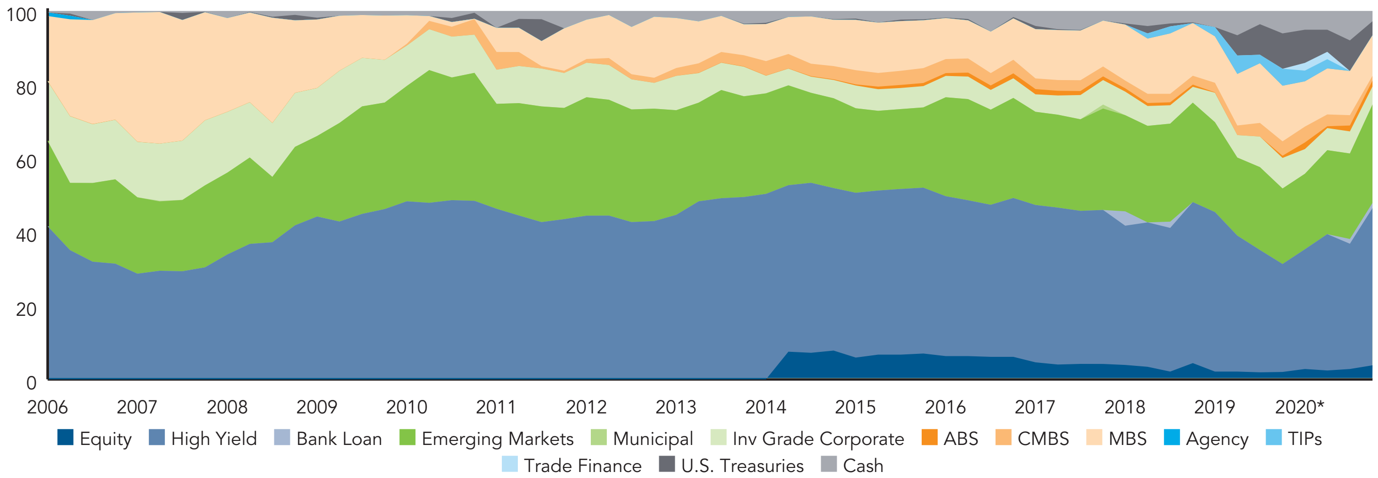
How we are positioned

With a few macro issues resolved (election uncertainty, Brexit), vaccinations underway, a continued highly accommodative Fed and the potential of additional stimulus from a Democratic controlled Congress and White House, we believe the U.S. economy will continue its positive momentum. We also expect that growth in EM economies will continue to be greater than that in developed markets. Given that backdrop, we expect interest rates at the short end of the yield curve will remain near current levels while longer-term rates will increase with the expectation of higher inflation. We also expect continued improvement in corporate profitability, capital spending and job growth. We are vigilantly monitoring the data for indications that inflation may be taking hold sooner than what is widely expected.

Taking all these factors into account, we would expect portfolio positioning to have a less-than-benchmark duration, an overweight to the short and intermediate portions of the yield curve and underweight longer-term maturities. We believe that the yield advantage of high-yield corporate bonds, EM bonds and investment-grade corporate bonds could lead to meaningfully outperformance relative to less risky assets such as Treasuries and agency MBS.

See disclosure section for important disclosures and definitions.

Historical sector weightings (%)



* As of 12/31/20

Risk statistics

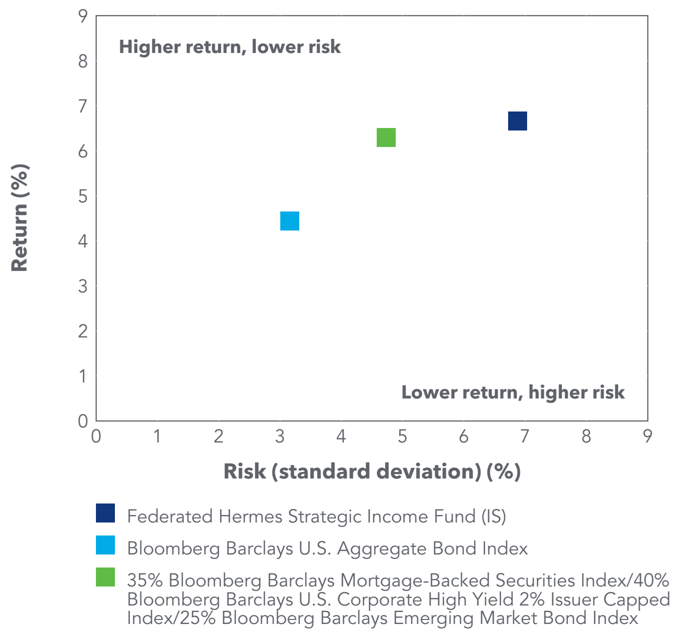
	3-year	5-year	7-year	10-year
Standard deviation	8.40	6.88	6.34	5.93
Alpha	1.20	3.43	2.01	2.26
Beta	0.78	0.65	0.62	0.65
Correlation	0.31	0.30	0.29	0.32
R^2	9.67	8.77	8.62	10.33

Sources: Federated Hermes, Morningstar, Inc.

Fund vs. Bloomberg Barclays U.S. Aggregate Bond Index

See disclosure section for important definitions.

5-year risk/return



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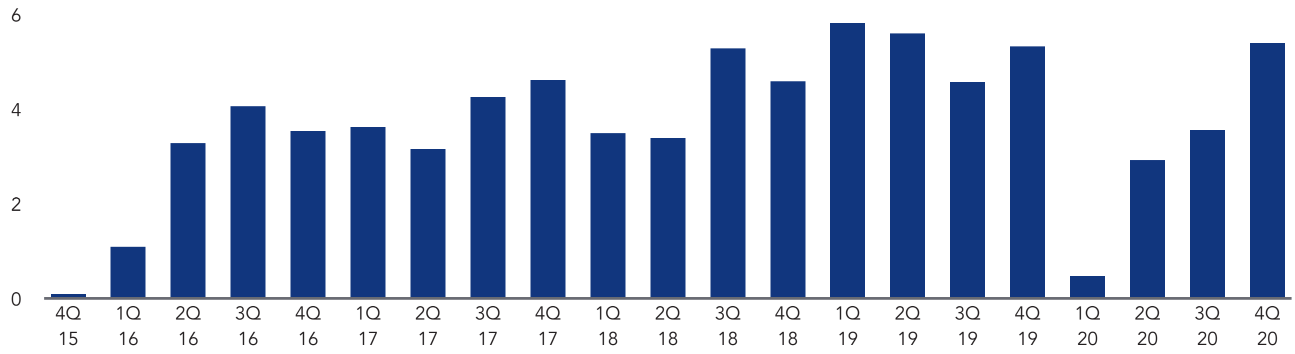
3-year rolling returns - IS (%)



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Category rankings

Morningstar Multisector Bond Category		1-year	3-year	5-year	10-year
R6 Shares	Morningstar Category % Rank	36	25	17	61
	Morningstar Category Rank	142 of 336 funds	79 of 295 funds	–	–
IS Shares	Morningstar Category % Rank	36	25	13	37
	Morningstar Category Rank	144 of 336 funds	81 of 295 funds	37 of 259 funds	48 of 135 funds
A Shares	Morningstar Category % Rank	39	34	19	49
	Morningstar Category Rank	151 of 336 funds	113 of 295 funds	51 of 259 funds	64 of 135 funds

Lipper Multi-Sector Income Funds		1-year	3-year	5-year	10-year
R6 Shares	Lipper Classification % Rank	49	33	–	–
	Lipper Classification Rank	169 of 351 funds	101 of 306 funds	–	–
IS Shares	Lipper Classification % Rank	49	35	14	40
	Lipper Classification Rank	171 of 351 funds	105 of 306 funds	35 of 264 funds	50 of 125 funds
A Shares	Lipper Classification % Rank	52	44	22	52
	Lipper Classification Rank	180 of 351 funds	135 of 306 funds	56 of 264 funds	65 of 125 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 Strategic Income Fund

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

[1]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") 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 3.79% for R6 Shares, 3.71% for Institutional Shares and 3.30% for A 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.

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 Barclays Emerging Markets USD Aggregate Index tracks total returns for external-currency-denominated debt instruments of the emerging markets: Brady bonds, loans, Eurobonds, and U.S. dollar-denominated local market instruments. Countries covered are Argentina, Brazil, Bulgaria, Ecuador, Mexico, Morocco, Nigeria, Panama, Peru, the Philippines, Poland, Russia, and Venezuela.

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.

Bloomberg Barclays U.S. 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

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. Past performance is no guarantee of future results.