

## Quarterly review

Fourth quarter 2024

### Quick take

- **Performance:** The Federated Hermes International Leaders Fund (IS Shares) returned -8.60% while the MSCI EAFE Index returned -8.11% for the quarter ending December 31, 2024. Stock selection within sector detracted from relative performance, while sector allocation and stock selection at the country level added to relative performance.
- **Positioning:** During the quarter, the team trimmed Information Technology and Consumer Staples. The team added to Utilities and Financials.
  - » **Overweight (>+1%):** Industrials, Utilities, Materials and Information Technology
  - » **Underweight (<-1%):** Real Estate, Consumer Discretionary, Consumer Staples and Financials

### Market overview

- Developed and emerging market equities had high single digit negative returns while US stocks (MSCI USA Index) held up with a +2.70% return during the fourth quarter.
- International equities sold off after the election of Donald Trump on fears of higher tariffs and a stronger US dollar.
- US dollar rose over 8% in the quarter.
- China continued to initiate programs to stabilize and stimulate its economy. The market was generally disappointed that more wasn't done on the fiscal front. China was apprehensive to roll out a full slate of stimulus programs until after the US election was settled.
- International growth and value stocks performed in line.
- Both France and Germany called for snap elections in the first quarter of 2025.
- All 11 Global Industry Classification Standard (GICS) sectors had negative returns, with Materials, Health Care and Utilities having the worst returns.

### US dollar rallies



Source: Federal Reserve Bank, St. Louis (10/1/24 - 12/31/24).  
The above chart is for illustrative purposes only and is not representative of any specific investment.

### US dollar most overvalued in history



Note: Chart shows gap between actual values of the US dollar and those predicted by Bank of America's behavioral equilibrium exchange-rate model are at a 30-year high.

Source: Bank of America Global Research (1995-2024).  
The above chart is for illustrative purposes only and is not representative of any specific investment.

**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).**

## Average annual total returns (%)

	3-month	YTD	1-year	3-year	5-year	10-year	Expense ratio*	
							Before waivers	After waivers
<b>IS (FGFLX)</b>	-8.60	-0.98	-0.98	1.94	5.19	4.74	0.96	0.79
<b>A (FGFAX) - NAV</b>	-8.66	-1.27	-1.27	1.66	4.91	4.47	1.23	1.09
<b>A (FGFAX) - MOP</b>	-13.68	-6.70	-6.70	-0.24	3.73	3.88	1.23	1.09
<b>MSCI EAFE Index</b>	-8.11	3.82	3.82	1.65	4.73	5.20	-	-
<b>Morningstar Foreign Large Blend</b>	-7.35	4.85	4.85	0.77	4.45	4.97	-	-

Sources: Federated Hermes, Inc.; MSCI; Morningstar, Inc. As of December 31, 2024. Returns for periods over one year are annualized.

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\* 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 2/1/26 or the date of the fund's next effective prospectus.

### 4Q24 Top and bottom contributors vs. MSCI EAFE Index (%)

#### Country – Top contributors

1. Japan
2. United Kingdom
3. Canada
4. Australia
5. Ireland

#### Sector – Top contributors

1. Industrials
2. Materials
3. Financials
4. Real Estate
5. Energy

#### Security – Top contributors

1. Melrose Industries PLC
2. Rheinmetall AG
3. CAE Inc.
4. HSBC Holdings Plc
5. Mitsubishi UFJ Financial Group, Inc

#### Country – Bottom contributors

1. Netherlands
2. Korea
3. France
4. Belgium
5. Israel

#### Sector – Bottom contributors

1. Information Technology
2. Health Care
3. Consumer Discretionary
4. Utilities
5. Consumer Staples

#### Security – Bottom contributors

1. Sika AG
2. DSM-Firmenich AG
3. LG Electronics Inc.
4. Capgemini SE
5. Anheuser-Busch InBev SA/NV

- Stock selection within sector and country weight detracted from performance, while stock selection in country added to relative performance.
- From a sector point, stock selection within Industrials and Materials added to relative performance while selection in Information Technology and Health Care detracted from performance.
- From a country perspective, Japan and the United Kingdom were additive, driven by Japanese bank holdings Melrose and HSBC in the UK.

#### Contributors:

- **Mitsubishi UFJ** announced first half results that were ahead of expectations. They raised full-year guidance, increased their dividend and announced a share buyback. This along with investors anticipating a BOJ rate hike in 2025 led to the bank's outperformance.
- **HSBC Holdings** announced its new CEO, which provided some certainty toward the direction of the bank. Asset quality at the bank remained good, and wealth management was strong with revenues expanding over 20%.
- **CAE Inc.**, a Canada-based flight simulation technology business, did well with FQ2 results coming in better than expected and F25 guidance was maintained. Margins improved, and investors welcomed the news that a new CEO is on its way.
- **Melrose Industries**, a leading player in the global aerospace industry, saw the market become more confident in its cash flow and profit outlook. With contractual rights to over 70% of flight hours globally, Melrose is well-positioned to benefit from global travel.
- **Rheinmetall**, the German defense contractor, continued to shine with new orders expanding and margins improving.

#### Detractors:

- Two Information Technology names, **Samsung Electronics** and **Capgemini**, detracted from relative performance. Samsung Electronics underperformed due to missing both on profits and revenues and the ongoing issue with its HBM 3E chip not being qualified by Nvidia. Capgemini underperformed as growth continued to falter. With a strong presence in Europe, the fears of reduced spending by European companies weighed on sentiment.
- Our pharmaceutical holdings, **Sanofi**, **AstraZeneca** and **NovoNordisk**, all underperformed as investors sold the group after President Trump nominated Robert F. Kennedy, Jr., as the head of the US Department of Health & Human Services.

## Portfolio activity

### Buys

- **Ashtead Group (UK, Industrials)**
- **Barclays (UK, Financials)** – Bought on attractive valuations, improving macro in UK and rebounding markets activity that should lift investment banking performance.
- **Mitsubishi Estate (Japan, Industrials)** – We have liked this leading Japanese trading company, but valuations were too high. An opportunity presented itself as investors misperceived the impact on higher rates on its earnings.
- **NEC Corp (Japan, Information Technology)** – Company strongly benefits from strong DX demands and Japan defense budget increases.
- **BMW (Germany, Consumer Discretionary)**

### Sells

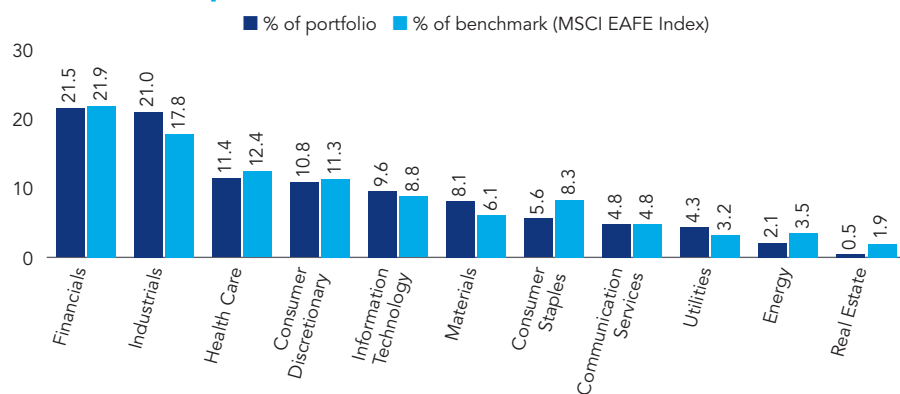
- **Danone (France, Consumer Staples)** – After a solid 2024, there seems to be limited upside in the name with rates staying higher than expected.
- **Edenred (France, Information Technology)** – Increased regulatory uncertainty in Italy, its most profitable market, led to consensus downgrades and multiple contraction.
- **Fanuc (Japan, Industrials)** – The company’s main business domain is automotive capex in US and China, where recovery in demands is likely to remain unclear in 2025.
- **Unilever Plc (UK, Consumer Staples)** – Strong financial results and strategic initiatives, such as spinning off its ice cream business, led to better-than-expected performance in 2024.

## Looking ahead

Looking forward into the first six months of 2025, the outlook for international equity markets is cloudy. Investor uncertainty is high as investors try to figure out the size and breadth of President Trump’s tariffs, the outcome of elections in Germany, France and Canada, and the Chinese government’s continued response to its floundering economy. Investor sentiment toward international equities is also negative as the “American Exceptionalism” trade remains firmly intact.

Investor sentiment, however, can change very quickly. Just look at Chinese equities last September and October. They rose 30% after the Chinese government pivoted from focusing on ideological issues to economic issues. We see the economic impact from tariffs being less than expected in both Europe and China. We see more favorable, business-friendly governments in Canada, France and Germany and think China will rollout meaningful fiscal stimulus programs that overall support a more favorable view on international equities as we enter the second half of the year. Developed and emerging market equities are trading at historically low valuations and can see a short-term rerating as the outlook turns more favorable.

## Portfolio snapshot



Top 10 holdings	Country	% of fund
<b>Siemens Aktiengesellschaft</b>	Germany	4.1
<b>Deutsche Telekom AG</b>	Germany	3.0
<b>AstraZeneca PLC</b>	United Kingdom	3.0
<b>Sanofi</b>	United States	2.6
<b>HSBC Holdings PLC</b>	United Kingdom	2.6
<b>Kerry Group plc</b>	Ireland	2.2
<b>Sony Group Corp.</b>	Japan	2.2
<b>Keyence Corporation</b>	Japan	2.1
<b>Mitsubishi UFJ Financial Group, Inc.</b>	Japan	2.1
<b>Hitachi, Ltd.</b>	Japan	2.0

Source: Federated Hermes, Inc. As of 12/31/24.

# Federated Hermes International Leaders Fund

## quarterly review

**Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. To obtain a summary prospectus or prospectus containing this and other information, contact us or visit [FederatedHermes.com/us](https://FederatedHermes.com/us). Please carefully read the summary prospectus or prospectus before investing.**

All information is as of 12/31/24 unless otherwise indicated.

The fund offers additional classes of shares whose performance will vary based on differences in charges and expenses.

The fund's Institutional Shares commenced operations on June 21, 2010. For the period prior to the commencement of operations for 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 of 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 to remove any voluntary waiver of the fund's expenses related to the A Shares that may have occurred during the period prior to the commencement of operations of the Institutional Shares.

For portfolio characteristics, Morningstar ratings, standard performance and more information, please visit [FederatedHermes.com/us](https://FederatedHermes.com/us).

Portfolio composition percentages are 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.

### 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.

Diversification does not assure a profit nor protect against a loss.

The value of equity securities in the fund's portfolio will fluctuate and, as a result, the fund's share price may decline. Equity securities may decline in value because of an increase in interest rates or changes in the stock market.

Prices of emerging 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.

The fund's use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional instruments.

### Definitions

**Behavioral equilibrium exchange rate (BEER)** models attempt to establish a long-term link between the real exchange rate and economic fundamentals.

**MSCI Europe, Australasia and Far East Index (EAFE)** is an equity index which captures large- and mid-cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI USA Index** is designed to measure the performance of the large and mid cap segments of the US market. With 590 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

**U.S. Dollar Index** indicates the general international value of the U.S. Dollar by averaging the exchange rates between the U.S. Dollar and six major world currencies. Indexes are unmanaged and cannot be invested in directly.

**Past performance is no guarantee of future results.**