

# Strategic Value Dividend Investment Team



## Market insights and investment view

December 2023

### Objectives update

- **Dividend yield:**\* The portfolio's holdings had a weighted avg. dividend yield at 12/31/23 of more than 2.5x times that of the S&P 500®.
- **Dividend growth:** The portfolio experienced 42 dividend increases in 2023.
- **Long-term total return:** Our income-first approach seeks to generate competitive long-term total return driven by dividends and dividend growth. In 2023, high-quality, low-beta dividend-paying stocks were extremely out of favor as market sentiment skyrocketed share prices of mega-cap growth stocks. The lowest dividend yield quintile stocks outperformed the highest quintile by 51.72%, the highest beta quintile outperformed the lowest by 50.62%, and lower quality stocks outperformed high quality.<sup>1</sup>

\*For standard yield of the fund and for total returns, see the chart on page 3.

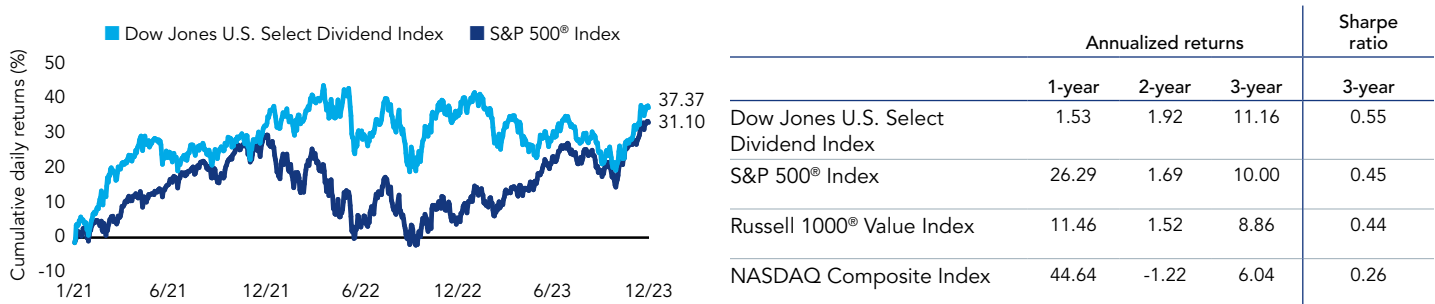
### Insights from the team

- **Mega caps:** The five largest weights in the S&P 500® are 25% of the index, the highest in recent history. In 1990, they were 12%.<sup>2</sup>
- **Changing interest rate environment:** Since 1990 there have been eight periods of falling interest rates. Four defensive sectors led during these periods: Health Care (16.0% average return), Consumer Staples (12.9%), Utilities (12.0%) and Communications Services (11.8%). This suggests the portfolio may be well-positioned for a falling rate period, as it invests primarily in defensive sectors. Also, in an analysis of the returns of different asset classes after past Fed hike pauses, the Dow Jones U.S. Select Dividend Index performed best.<sup>3</sup>

### Investment view

- **The tortoise and the hare:** In today's uncertain, jumpy market environment, a lower volatility equity strategy such as ours can provide a "smoother ride," capturing upside while limiting downside over time. Research shows that high-dividend stocks can lower the risk of an investor's equity sleeve long-term while still providing competitive returns.<sup>4</sup> We seek quality companies with high dividends, dividend growth potential, strong balance sheets, stable cash flows and pricing power. These offer competitive long-term return potential, high- and rising-income potential, lower volatility and currently, attractive valuations. We believe that prices should eventually revert to reflect strong company fundamentals more accurately and now is a buying opportunity.

### High-dividend stocks outperformed with lower volatility over the last three years



As of 12/31/23. **Past performance is no guarantee of future results.** For illustrative purposes only and not representative of performance for any specific investment.

<sup>1</sup> Bank of America Global Research.

<sup>2</sup> As of 12/31/23. Sources: Strategas, Bloomberg LP. Based on data beginning 1990 showing the percent sum of the five largest weights in the S&P 500®.

<sup>3</sup> Federated Hermes (2023). Which asset classes performed best after rate hike pauses? FederatedHermes.com. Retrieved 1/23/24.

<sup>4</sup> Federated Hermes (2023). Dividend strategies: An underappreciated equity approach hiding in plain sight. FederatedHermes.com. Retrieved 1/23/24.

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## Federated Hermes U.S. Strategic Dividend ETF (FDV)

### Our philosophy

We believe in owning businesses that are committed to providing investors regular dividend payments.

We are not a traditional equity value shop; rather, we believe in an income-first approach that seeks to deliver a high current yield and growing income stream to our clients. We believe we can meet the needs of investors seeking current income, as well as those looking for moderate capital appreciation through dividend growth.

### Objective

The fund pursues income and long-term capital appreciation by investing primarily in high-dividend-paying stocks of U.S. companies with dividend growth potential.

- Seeks a higher dividend yield than that of the broad equity market
- Invests in high-quality companies positioned to increase their dividends over time
- Offers the potential for competitive upside performance in strong market environments and the potential for lower downside risk in weak environments

### Key data

- Gross weighted average dividend yield of 4.06% is more than 2.5x the S&P 500<sup>®</sup> at 1.48% and more than the 10-year Treasury at 3.88%<sup>5</sup>
- 30-day yield is 3.54% at net asset value (NAV) and market price<sup>6</sup>
- Trailing 12-months, there were 42 dividend increases and zero cuts
- 100% of the 54 holdings were investment-grade rated (highest S&P-rated holdings: Johnson & Johnson at AAA; lowest: Conagra Brands, Inc. at BBB-)

**Performance quoted represents past performance, which is no guarantee of future results. Fund performance changes over time and current performance may be lower or higher than what is stated. Investment return and principal value will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. Performance includes reinvestment of dividends and other earnings. To view performance current to the most recent month-end contact us or visit [FederatedHermes.com/us](http://FederatedHermes.com/us). See following page for standard fund total returns.**

Sector allocation	% of portfolio	% of benchmark	Variance
Utilities	18.8	2.3	16.5
Consumer Staples	17.2	6.2	11.0
Health Care	13.8	12.6	1.2
Financials	12.4	13.0	-0.6
Industrials	8.3	8.8	-0.5
Communication Services	6.2	8.6	-2.4
Information Technology	6.1	28.8	-22.7
Consumer Discretionary	5.5	10.9	-5.4
Energy	5.3	3.9	1.4
Materials	3.4	2.4	1.0
Real Estate	2.8	2.5	0.3
Cash/Cash Equivalents	0.2	0.0	0.2
<b>Total % of Portfolio:</b>	100.0	100.0	-

Fund statistics	Federated Hermes U.S. Strategic Dividend ETF	S&P 500 <sup>®</sup> Index
<b>Wtd. average dividend yield (%)</b>	4.06	1.48
<b>Wtd. median P/E ratio (NTM)</b>	14.50x	22.50x
<b>Median 3-year average dividend payout ratio</b>	58.06	29.03
<b>Wtd. median price/book</b>	2.26x	6.70x
<b>Wtd. median price/cash flow</b>	9.51x	20.89x
<b>Portfolio beta vs. S&amp;P 500<sup>®</sup> (5-year)<sup>7</sup></b>	0.83	1.00
<b>Foreign securities (%)</b>	0.00	0.00
<b>Number of holdings</b>	54	500

Top 10 holdings (%)	Weight	Prospective dividend yield
<b>Amgen Inc.</b>	4.2	3.1
<b>JPMorgan Chase &amp; Co.</b>	3.4	2.5
<b>Philip Morris International Inc.</b>	3.2	5.5
<b>The Southern Company</b>	3.1	4.0
<b>Target Corp.</b>	3.1	3.1
<b>Duke Energy Corporation</b>	3.0	4.2
<b>The PNC Financial Services Group, Inc.</b>	2.9	4.0
<b>United Parcel Service, Inc.</b>	2.6	4.1
<b>Dominion Energy, Inc.</b>	2.6	5.7
<b>Verizon Communications Inc.</b>	2.6	7.1

Unless otherwise noted, all information is as of 12/31/23.

Investment-grade securities are securities that are rated at least "BBB" or unrated securities of a comparable quality. Non-investment-grade securities are securities that are not rated at least "BBB" or unrated securities of a comparable quality.

<sup>5</sup>Yield for the fund and index is the weighted average dividend yield. See the disclosures at the end of this document for yield definitions.

<sup>6</sup>In the absence of temporary expense waivers or reimbursements, the 30-day yield would have been 3.44% at NAV and market price as of 12/31/23.

<sup>7</sup>5-year wtd. average beta of underlying stocks vs. the S&P 500<sup>®</sup> Index.

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

## Average annual total returns (%) as of 12/31/23

	Ticker symbol	Cumulative 3-month	1-year	Since inception (11/15/22)	30-day yield <sup>^</sup>	Expense ratio <sup>*,†</sup>	
						Before waivers	After waivers
<b>NAV</b>	<b>FDV</b>	8.64	-2.13	-0.80	3.54	0.62	0.50
<b>Market price</b>	<b>FDV</b>	8.64	-2.18	-0.25	3.54	0.62	0.50
<b>S&amp;P 500<sup>®</sup> Index</b>	–	11.69	26.29	15.55	–	–	–

**Performance quoted represents past performance, which is no guarantee of future results. Fund performance changes over time and current performance may be lower or higher than what is stated. Investment return and principal value will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. Performance includes reinvestment of dividends and other earnings. To view performance current to the most recent month-end contact us or visit [FederatedHermes.com/us](https://FederatedHermes.com/us).**

The market price return is calculated from closing prices as determined by the fund's listing exchange. The returns shown do not represent the returns you would receive if you traded shares at other times.

**\* 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 1/1/25 or the date of the fund's next effective prospectus.**

† Includes acquired fund fees and other expenses.

<sup>^</sup>In the absence of temporary expense waivers or reimbursements, the 30-day yield would have been 3.44% at NAV and 3.44% at market price.

Fund shares are bought and sold on an exchange at market price (not NAV) and are not individually redeemed from the fund. However, shares may be redeemed at NAV directly by certain authorized broker-dealers (Authorized Participants) in very large creation/redemption units. The returns shown do not represent the returns you would receive if you traded shares at other times. Shares may trade at a premium or discount to their NAV in the secondary market. Brokerage commissions will reduce returns. Market price returns are based on the official closing price of an ETF share or, if the official closing price isn't available, the midpoint between the national best bid and national best offer ("NBBO") as of the time the ETF calculates the current NAV per share. NAVs are calculated using prices as of 4:00 PM Eastern Time. Recent information, including information about the fund's NAV, market price, premiums and discounts, and bid-ask spreads, is included on the fund's website at [FederatedHermes.com/us](https://FederatedHermes.com/us).

## Definitions

**The holdings percentages** are based on net assets at the close of business on 12/31/23 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 holdings will change.

**High-dividend-paying** stocks are defined by the Advisor as those with a higher dividend yield than the S&P 500<sup>®</sup> Index's average dividend yield.

**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 net asset value (NAV) per fund share. The standardized computation is designed to facilitate yield comparisons among different funds. The 30-day yield at market price is calculated similarly to the "SEC yield" but is based on market price rather than NAV.

**Weighted average dividend yield** is the prospective dividend yield for each security averaged based on the percentages of the securities in the portfolio. Prospective dividend yield is calculated by taking the most recent declared dividend payment multiplied by the number of dividend payments typically made during the year for each holding divided by the current share price for each security. This is calculated based on a snapshot in time and may change due to fluctuations in share prices, dividends actually paid and changes in holdings in the portfolio.

**Price/earnings ratio (P/E ratio)** is a valuation ratio of a company's current share price compared to its per-share earnings. The P/E ratio helps investors determine the market value of a stock as compared to the company's earnings. A low P/E ratio might indicate that a stock that has the potential for significant growth is undervalued. P/E ratios are only one indicator of a company's financial well-being. Forward price-to-earnings (Forward P/E) is a version of the P/E that uses forecasted earnings for the P/E calculation. The earnings used in this formula are just an estimate and not as reliable as current or historical earnings data.

**Price/book ratio** is a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

**Price/cash flow ratio** is a stock valuation measure calculated by dividing a firm's cash flow per share into the current stock price.

**Payout ratio** is the proportion of earnings paid out as dividends to shareholders, typically expressed as a percentage.

**Sharpe ratio** is calculated by dividing a portfolio's excess return by its standard deviation. The higher the Sharpe ratio, the better the portfolio's historical risk adjusted performance.

**Beta** analyzes the market risk of a fund by showing how responsive the fund is to the market. The beta of the market is 1.00. Accordingly, a fund with a 1.10 beta is expected to perform 10% better than the market in up markets and 10% worse in down markets. Usually the higher betas represent riskier investments.

**Standard deviation** is a historical measure of the variability of returns relative to the average annual return. A higher number indicates higher overall volatility.

**S&P 500<sup>®</sup> Index** is an unmanaged capitalization-weighted index of 500 stocks designated to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Indexes are unmanaged and cannot be invested in directly.

**Dow Jones U.S. Select Dividend Index** is all dividend-paying companies in the Dow Jones U.S. Total Market Index that have a non-negative, historical, five-year dividend-per-share growth rate, a five-year average dividend earnings-per-share ratio of less than or equal to 60% and three-month average daily trading volume of 200,000 shares. Current index components are included in the universe regardless of their dividend payout ratio. The Dow Jones U.S. Total Market Index is a rules-governed, broad-market benchmark that represents approximately 95% of the U.S. market capitalization.

**NASDAQ Composite Index** measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market.

**Russell 1000<sup>®</sup> Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000<sup>®</sup> index companies with lower price-to-book ratios and lower expected growth values. The R1000V is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Russell 1000<sup>®</sup> Value Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

Indexes are unmanaged and cannot be invested in directly.

## A word about risk

There are no guarantees that dividend-paying stocks will continue to pay dividends. In addition, dividend-paying stocks may not experience the same capital appreciation potential as non-dividend-paying stocks.

Diversification does not assure a profit nor protect against loss.

**This material must be preceded or accompanied by a prospectus. Click [here](#) for the latest prospectus.**