

Strategic Value Dividend Investment Team



Market insights and investment view

May 2024

Objectives update - Federated Hermes U.S. Strategic Dividend ETF (FDV)

- **Dividend yield:*** The portfolio's holdings had a weighted average dividend yield at 5/31/24 of more than 2.5x that of the S&P 500®.
- **Dividend growth:** 42 companies in the portfolio have raised dividends over the last 12 months, providing strong organic dividend growth. None have cut.
- **Long-term total return:** Our income-first approach seeks to generate competitive long-term total return driven by dividends and dividend growth. Over the last 12 months, our style of investing in stocks with the potential for high and rising dividends has significantly underperformed the broad market, with high-yielding S&P 500® stocks underperforming no/low-yielding stocks by 14.83%.

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

Insights from the team

- **Corporate earnings:** S&P 500® earnings growth is still being driven by the Magnificent 7.¹ The first quarter was the fifth quarter in a row where the remaining 493 companies in the S&P 500® had negative average year-over-year earnings-per-share (EPS) growth: -2.1% based on companies that had reported as of mid-May. Including the Magnificent 7, 1Q24 EPS growth was 4.3%.
- **Remember Palm Pilot?** In 2000, Palm (the company that created the first successful personal digital assistant) was worth more than Apple, NVIDIA, and Amazon combined. By 2011, it was effectively defunct.
- **Which stocks have historically outperformed after rate cuts?** Utilities is the only sector with positive performance six months after every first rate cut since 1995, as shown below. Overall, defensive sectors outperformed. This makes sense, as rate cuts typically occur in challenging times.

Defensive sectors historically lead in the six months after the first rate cut

S&P 500® performance (%) by sector six months after the first fed funds rate cut

Date of first fed funds rate cut	Utilities	Consumer Staples	Health Care	Industrials	Materials	Communication Services	Energy	Financials	Consumer Discretionary	Real Estate	Information Technology
7/6/95	2.4	4.9	14.8	0.5	-11.3	13.8	2.7	4.8	-8.8	n/a	-18.5
1/3/01	3.9	1.7	-1.7	8.7	14.0	-2.4	5.7	3.9	10.9	n/a	-15.4
9/18/07	8.3	12.5	1.1	4.0	13.5	-6.9	11.4	-14.8	-6.1	-3.1	0.0
8/1/19	6.3	-2.2	0.1	-2.8	-9.7	-1.0	-18.7	-0.6	-4.2	-3.7	9.3
Average	5.2	4.2	3.6	2.6	1.6	0.9	0.3	-1.7	-2.1	-3.4	-6.2

Source: Strategas. **Past performance is not indicative of future results.** For illustrative purposes only and not representative of any specific investment.

Investment view

- These are trying times for dividend investors. Investors have been piling into stocks on the assumption that an interest rate cut is imminent and/or artificial intelligence (AI) is the next big thing. While mature, cash-distributing, defensive companies have moved up along with the market, they have not gained nearly as much as AI, big tech and non-dividend stocks. In some ways, sentiment recalls the 1990s, when non-dividend-paying stocks made a valiant charge against dividend payers and growers during the tech boom before crashing. This time may be different; we offer no date-specific expectations of outperformance. However, we note that high-dividend stocks offer a history of compelling long-term return² and lower downside risk³ versus non-dividend stocks, which should not be surprising considering what an equity investment really is: a small stake in a company that entitles you to a share of the company's profits, assuming they have profits.

Unless otherwise noted, all information is as of 5/31/24. **Past performance is no guarantee of future results.**

Not FDIC Insured • May Lose Value • No Bank Guarantee

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 4.04% is more than 2.5x the S&P 500® at 1.40%⁴
- 30-day yield is 3.54% at net asset value (NAV) and market price⁵
- Trailing 12 months, there were 43 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. and Skyworks Solutions, 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. See following page for standard fund total returns.

Unless otherwise noted, all information is as of 5/31/24.

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.

¹ Apple, Inc., Amazon.com, Inc., Alphabet, Inc., Meta Platforms, Inc., Microsoft Corp., NVIDIA Corp. and Tesla, Inc.

² As of 12/31/23, Fama French Top 30% Dividend Paying Portfolio returned 10.61%, 12.00% and 12.67% annualized over the last 30, 40 and 50 years, respectively, outperforming both the Fama French Low 30% Dividend Paying and Non Paying Dividend Portfolios. Fama French Low 30% Dividend Paying Portfolio returned 10.24%, 11.02% and 10.82% annualized over the last 30, 40 and 50 years, respectively. Fama French Non Dividend Paying Portfolio returned 10.40%, 9.99% and 11.81% annualized over the last 30, 40 and 50 years, respectively. This is for illustrative purposes only and is not indicative of any specific investment. Investments cannot be made in the portfolio. **Past performance is no indication of future results.**

³ In an analysis of all S&P 500® Index declines of -10% or steeper from 1/1/73 to 12/31/23, high-dividend payers returned -12.72% on average and non-dividend payers returned -27.38% on average. High-dividend payers (represented by Fama French Top 30% Dividend Payers Portfolio) outperformed non-dividend payers (represented by Fama French Non-Dividend Payers Portfolio) in seven out of 11 declines.

⁴ Yield for the fund and index is the weighted average dividend yield. See the disclosures at the end of this document for yield definitions.

⁵ 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 5/31/24.

⁶ 5-year weighted average beta of underlying stocks vs. the S&P 500® Index.

Past performance is no guarantee of future results.

Sector allocation	% of portfolio	% of benchmark	Variance
Utilities	19.4	2.5	16.9
Consumer Staples	18.7	6.0	12.7
Health Care	14.0	12.0	2.0
Financials	11.1	12.9	-1.8
Information Technology	7.0	30.6	-23.6
Real Estate	5.7	2.2	3.5
Communication Services	5.6	9.3	-3.7
Energy	5.4	3.9	1.5
Industrials	5.4	8.5	-3.1
Materials	3.7	2.3	1.4
Consumer Discretionary	3.4	9.8	-6.4
Cash/Cash Equivalents	0.6	0.0	0.6
Total % of portfolio:	100.0	100.0	-

Fund statistics	Federated Hermes U.S. Strategic Dividend ETF	S&P 500® Index
Wtd. average dividend yield (%)	4.04	1.40
Wtd. median P/E ratio (NTM)	15.31x	23.05x
Median 3-year average dividend payout ratio	58.52	31.54
Wtd. median price/book	2.49x	7.92x
Wtd. median price/cash flow	10.34x	20.96x
Portfolio beta vs. S&P 500® (5-year)⁶	0.80	1.00
Foreign securities (%)	0.00	0.00
Number of holdings	54	500

Top 10 holdings (%)	Weight	Prospective dividend yield
Amgen Inc.	3.6	2.9
Philip Morris International Inc.	3.3	5.1
Chevron Corp	3.1	4.0
Duke Energy Corporation	3.1	4.0
Conagra Brands, Inc.	2.8	4.7
The Southern Company	2.8	3.6
The PNC Financial Services Group, Inc.	2.8	3.9
Verizon Communications Inc.	2.7	6.5
Texas Instruments, Inc.	2.6	2.7
Morgan Stanley	2.6	3.5

Average annual total returns (%) as of 6/30/24

	Ticker symbol	Cumulative 3-month	1-year	Since inception (11/15/22)	30-day yield [^]	Expense ratio ^{*,†}	
						Before waivers	After waivers
NAV	FDV	-0.09	8.32	2.59	3.60	0.62	0.50
Market price	FDV	-0.96	8.23	2.96	3.60	0.62	0.50
S&P 500® Index	–	4.28	24.56	20.65	-	-	-

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.

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.

[^]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 6/30/24.

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.

Definitions

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.

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.

EPS growth is the estimated average annual growth rate of fiscal year earnings per share for a given corporation.

Fama-French portfolios formed on D/P at the end of each June using NYSE breakpoints. The dividend yield used to form portfolios in June of year t is the total dividends paid from July of t-1 to June of t per dollar of equity in June of t. Includes all NYSE, AMEX and NASDAQ stocks for which we have market equity for June of year t, and at least 7 monthly returns (to compute the dividend yield) from July of t-1 to June of t.

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

The holdings percentages are based on net assets at the close of business on 5/31/24 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 holdings will change.

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

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.

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.

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.

S&P 500® 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.

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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](https://FederatedHermes.com/us) for the latest prospectus.