

Strategic Value Dividend Investment Team

Market insights and investment view

June 2024

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

- **Dividend yield:*** The portfolio's holdings had a weighted average dividend yield at 6/30/24 of more than 3x that of the S&P 500®.
- **Dividend growth:** Four companies in the portfolio raised their dividend in June: Darden Restaurants, Inc., Target Corp., Morgan Stanley and Realty Income Corp. None 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 17.97%.

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

Insights from the team

- **2Q24 equity return drivers:** Large cap second quarter returns breakdown as follows, according to UBS. Apple, Inc., Amazon.com, Inc., Alphabet, Inc., Meta Platforms, Inc., Microsoft Corp., and NVIDIA Corp. drove the S&P 500®'s 3.9% price return. The six largest tech stocks were up 17.0%, driven by 9.2% earnings-per-share (EPS) growth and multiple expansion of 7.2%. Excluding these six stocks, the rest of the index returned -1.1%, driven by multiple contraction of -3.8%.
- **Present vs. past periods of uninterrupted exuberance:** US equities broke new highs each week from 11/1/23 to 3/1/24, the longest streak in 80 years, according to Morgan Stanley. The S&P 500® has now gone ~650 days without a -10% correction as of 7/17/24. The Roaring 20s market moved up without a -10% correction for ~1,000 days. By the same measure, the dot-com bubble lasted ~1,800 days.

Investment view

- **Current market conditions have created an unusual, uneven environment that is not sustainable long-term, in our view.** A handful of securities and a phenomenon that has yet to be tested as to its profitability, artificial intelligence (AI), are driving market performance. NVIDIA alone drove 34.5% of returns in the S&P 500® YTD through early June. As we noted above, about 40% of NVIDIA and the other mega-cap tech stocks' performance in 2Q24 came from multiple expansion. In other words, market participants paid more for expected future earnings. Meanwhile, dividend payments contributed a negligible return, as these companies pay very low or no dividends. Recent history aside, this is rare. Dividend payments contributed about 40% of market returns from 1925-2023.¹ And over the long term, high-dividend strategies have outperformed low/no-dividend paying stocks.²

Low/no dividend stocks' blockbuster years in the rear view?

As seen below from 1970-2023, high-dividend annual stock returns were more often in the middle range (0-20%), and less often to the downside, providing a "smoother ride." Low/no-dividend stocks have returned >20% slightly more often than high-dividend stocks, but history suggests that they may have already seen all or most of their blockbuster years for this decade.

Number of years/decade returns were within range	Low/no-dividend stocks			High-dividend stocks		
	Years <0%	Years 0-20%	Years 20%+	Years <0%	Years 0-20%	Years 20%+
1970s	4	2	4	2	6	2
1980s	2	5	3	0	4	6
1990s	2	3	5	2	5	3
2000s	4	4	2	3	5	2
2010s	3	3	4	2	5	3
Average percentage of years/decade within range	30%	34%	36%	18%	50%	32%
2020-23	1	0	3	1	2	1
Percentage of years within range	25%	0%	75%	25%	50%	25%

As of 12/31/23. Sources: Eugene F. Fama & Kenneth R. French, Morningstar, Inc., Federated Hermes analysis. High-dividend stocks represented by Fama French Top 30% Dividend Payers. Low/no-dividend stocks represented by Fama French Low 30% Dividend Payers. Investments cannot be made in the Fama French portfolios. **Past performance is not indicative of future results.**

- Typically, the best time to embrace a particular investment style is when it is out of favor. We believe now is a buying opportunity for our strategy of pursuing high- and rising-dividend income.

Unless otherwise noted, all information is as of 6/30/24. **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 US 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 4.10% is more than 3x the S&P 500® at 1.35%³
- 30-day yield is 3.60% at net asset value (NAV) and market price⁴
- Trailing 12 months, there were 45 dividend increases and zero cuts
- 100% of the 56 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.

Sector allocation	% of portfolio	% of benchmark	Variance
Consumer Staples	18.6	5.8	12.8
Utilities	17.1	2.3	14.8
Health Care	15.2	11.7	3.5
Financials	11.3	12.4	-1.1
Information Technology	7.7	32.4	-24.7
Real Estate	7.3	2.2	5.1
Communication Services	5.6	9.3	-3.7
Energy	5.4	3.6	1.8
Industrials	5.3	8.1	-2.8
Materials	3.6	2.2	1.4
Consumer Discretionary	3.1	10.0	-6.9
Cash/Cash Equivalents	-0.2	0.0	-0.2
Total % of portfolio:	100.0	100.0	-

Fund statistics	Federated Hermes U.S. Strategic Dividend ETF	S&P 500® Index
Wtd. average dividend yield (%)	4.10	1.35
Wtd. median P/E ratio (NTM)	15.18x	23.91x
Median 3-year average dividend payout ratio	57.98	31.18
Wtd. median price/book	2.53x	8.55x
Wtd. median price/cash flow	10.27x	21.95x
Portfolio beta vs. S&P 500® (5-year)⁵	0.80	1.00
Foreign securities %	0.00	0.00
Number of holdings	56	500

Top 10 holdings (%)	Weight	Prospective dividend yield
Amgen Inc.	3.2	2.9
Philip Morris International Inc.	3.0	5.1
Chevron Corp	3.0	4.2
Duke Energy Corporation	3.0	4.1
Target Corp.	2.9	3.0
Morgan Stanley	2.8	3.8
The PNC Financial Services Group, Inc.	2.8	4.0
The Southern Company	2.8	3.7
Verizon Communications Inc.	2.7	6.5
Conagra Brands, Inc.	2.7	4.9

Unless otherwise noted, all information is as of 6/30/24.

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 As of 12/31/23. Sources: Robert Schiller, Federated Hermes analysis. **Past performance is not indicative of future results.**

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 not indicative of future results.**

³ Yield for the fund and index is the weighted average dividend yield. See the disclosures at the end of this document for yield definitions.

⁴ 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.

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

Past performance is no guarantee of future results.

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 6/30/24 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.