

Strategic Value Dividend Investment Team



Market insights and investment view

November 2024

R6: SVALX | IS: SVAIX | A: SVAAX

Objectives update – Federated Hermes Strategic Value Dividend Fund

- **Dividend yield:*** The portfolio's holdings had a weighted average dividend yield at 9/30/24 of more than 3x that of the S&P 500®.
- **Dividend growth:** Year-to-date, the portfolio has had 24 of its current holdings raise dividends. None cut, but National Grid announced a dilutive stock issuance.
- **Long-term total return:** Our income-first approach seeks to generate competitive long-term total return driven by dividends and dividend growth. Since inception, the portfolio has delivered this return objective.

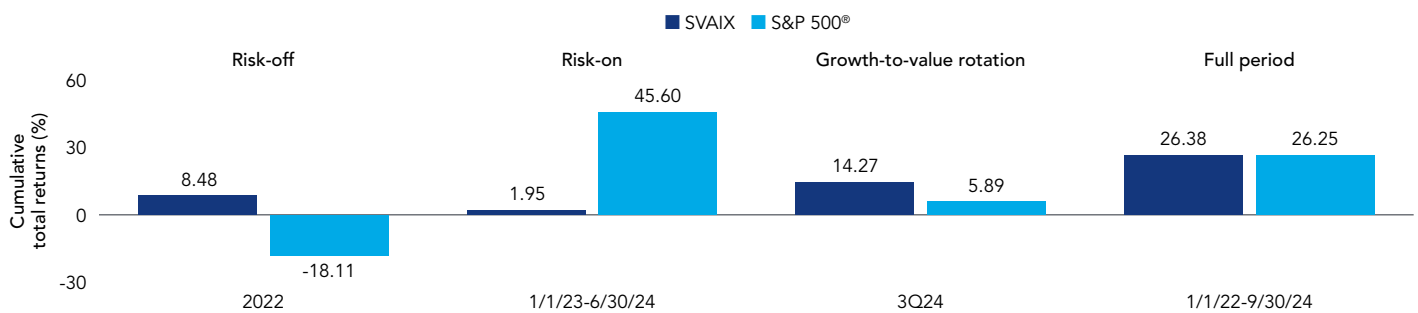
*For standard yield of the fund and for total returns, see the chart on page three.

Insights from the team

Does the rotation to high dividends have legs? The graph below shows how the portfolio outperformed in 3Q24 as the market rotated towards defensive dividend payers. We believe this rotation has the potential to continue for several reasons:

1. Defensive, dividend-paying sectors have outperformed in the six months after the first rate cut in the last four cycles (the top three sectors based on average relative returns vs. the S&P 500® were: Utilities +5.2%, Consumer Staples +4.2% and Health Care +3.6%; the bottom three were Consumer Discretionary -2.1%, Real Estate -3.4% and Tech -6.2%, according to Strategas).
2. Whether it's the polarizing political environment, conflict abroad, or mega-cap stock market concentration, etc, risks persist. The S&P 500® bottomed on average 222 days after the first rate cut in the last eight cut cycles, falling on average -22.2%. High-dividend stocks tend to outperform in challenging markets. This is partly because dividends provide a cash payment, a positive source of return that can help offset share price declines. It is also because quality dividend stocks are historically profitable companies that are typically mature, have steady cash flows and can weather difficult markets.
3. Relative valuations remain attractive: 14.96x portfolio forward price-to-equity (P/E) ratio vs. 25.70x S&P 500®, a -10.74 difference vs. the long-term average difference, -2.86.¹

Market performance jumped up and down over the last few years. Strategic Value Dividend provided a smoother ride and ultimately, competitive performance (SVAIX) vs. the S&P 500®



Sources: Morningstar, Inc., Federated Hermes, Inc. Performance is for IS Shares. Other classes of shares are available whose performance will vary due to different charges and expenses. Performance shows different time periods selected based on different market environments. Performance for other periods varied. **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://www.federatedhermes.com/us). See page three for standard fund total returns.**

Investment view

Dividends are back. In a weakening economy when interest rates are falling, high-quality dividend payers offer both downside defense and rate sensitivity, as they have a history of outperforming in down markets and tend to benefit from a lower cost of capital. Plus, valuations are attractive. We believe now is a buying opportunity.

Unless otherwise noted, all information is as of 9/30/24.

¹ Long-term average is the monthly average relative one-year forward P/E ratio since inception 3/30/05. Current levels indicate the potential for mean reversion, as valuations may rise closer to typical historical levels. Reversion to the mean is a theory that suggests that valuations can revert to a long-term level. Hence, if there is a large jump up or down, valuations may return or revert eventually to the level they were prior.

Federated Hermes Strategic Value Dividend Fund

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 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 4.29% is more than 3x the S&P 500® at 1.29% and more than the 10-year Treasury at 3.81%²
- R6 Shares have a 30-day SEC yield of 3.54%, IS Shares have a 30-day SEC yield of 3.52% and A Shares at maximum offering price (MOP) have a 30-day SEC yield of 3.09%³
- Trailing 12 months there were 37 dividend increases and zero cuts
- Top sector weights: Health Care 18.9% / Utilities 18.4% / Financials 17.4% / Consumer Staples 11.6% / Energy 11.3% (1.6% in Consumer Discretionary and 0.0% in Information Technology)
- New positions in September: Bristol-Myers Squibb Company; Increased positions: Johnson & Johnson, Kenvue, Inc., Morgan Stanley, Paychex, Inc., ProLogis, Inc.
- Exited positions: Conagra Brands, Inc., Kimberly-Clark Corp.; Trimmed positions: Dominion Energy, Inc., Duke Energy Corp.
- 100% of the 46 holdings were investment-grade rated (highest S&P-rated holdings: Johnson & Johnson at AAA; lowest: Amcor PLC, AT&T, Inc., BCE, Inc., CVS Health Corp., LyondellBasell Industries N.V. at BBB)

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. See page three for standard fund total returns.

Fund statistics	Federated Hermes Strategic Value Dividend Fund	S&P 500® Index	Top 10 holdings (%)	Weight	Prospective dividend yield
Wtd. average dividend yield (%)	4.29	1.29	Gilead Sciences, Inc.	4.0	3.7
Wtd. median P/E ratio (NTM)	14.96x	25.70x	Verizon Communications Inc.	3.9	6.0
Median 3-year average dividend payout ratio	66.03	31.48	Sanofi	3.4	3.7
Wtd. median price/book	1.97x	8.27x	LyondellBasell Industries N.V.	3.3	5.6
Wtd. median price/cash flow	9.34x	22.37x	Bristol-Myers Squibb Company	3.3	4.6
Portfolio beta vs. S&P 500® (3-year)⁴	0.60	1.00	Philip Morris International Inc.	3.3	4.5
Foreign securities (%)	23.85	0.00	Truist Financial Corp	3.2	4.9
Number of holdings	46	500	Enbridge Inc.	3.2	5.7
			U.S. Bancorp	3.2	4.4
			TotalEnergies SE	3.0	5.4

Unless otherwise noted, all information is as of 9/30/24.

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.

² Yield for the fund and index is the weighted average dividend yield. The current US 10-year Treasury yield is not a dividend yield and is shown for comparison purposes. See the disclosures at the end of this document for yield definitions.

³ In the absence of temporary expense waivers or reimbursements, the 30-day yield would have been 3.50% for R6 Shares, 3.01% for A Shares at MOP and 3.44% for Institutional Shares as of 9/30/24.

⁴ Morningstar 3-year beta versus S&P 500® Index calculated using monthly returns.

Past performance is no guarantee of future results.

Average annual total returns (%) as of 9/30/24

	Ticker symbol	1-year	3-year	5-year	10-year	Since inception (3/30/05)	30-day yield [^]	Expense ratio [*]	
								Before waivers	After waivers
R6 Shares	SVALX	28.90	10.88	8.24	7.61	7.40	3.54	0.84	0.79
IS Shares	SVAIX	28.87	10.79	8.22	7.62	7.57	3.52	0.92	0.81
A Shares (NAV)	SVAAX	28.79	10.59	7.96	7.36	7.30	3.27	1.16	1.06
A Shares (MOP)	SVAAX	21.81	8.53	6.73	6.74	7.00	3.09	1.16	1.06
S&P 500[®] Index	–	36.35	11.91	15.98	13.38	10.62	-	-	-

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

The fund's R6 Shares commenced operations on June 29, 2016. For the period prior to the commencement of operations of the R6 Shares, the performance information shown is for the fund's Institutional Shares adjusted to remove any voluntary waiver of fund expenses related to the fund's Institutional Shares that may have occurred during the periods prior to the commencement of operations of the fund's R6 Shares.

[^] In the absence of temporary expense waivers or reimbursements, the 30-day yield would have been 3.50% for R6 Shares, 3.18% for A Shares at net asset value (NAV), 3.01% for A Shares at maximum offering price (MOP) and 3.44% for Institutional Shares as of 9/30/24.

The fund is a managed portfolio and portfolio holdings are subject to change. The holdings percentages are based on net assets at the close of business on 9/30/24 and may not necessarily reflect adjustments that are routinely made when presenting net assets for formal financial statement purposes.

Definitions

10-year Treasury yield is the yield received for investing in a US government issued treasury security that has a maturity of 10 years.

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 maximum offering price per fund share. The standardized computation is designed to facilitate yield comparisons among different funds.

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.

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.

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-to-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.

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

A word about risk

Mutual funds are subject to risks and fluctuate in value.

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 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.

Mid-cap companies often have narrower markets and limited managerial and financial resources compared to larger and more established companies.

Large-cap companies may have fewer opportunities to expand the market for their products or services, may focus their competitive efforts on maintaining or expanding their market share, and may be less capable of responding quickly to competitive challenges. The above factors could result in the share price of large-cap companies lagging the overall stock market or growth in the general economy, and, as a result, could have a negative effect on the fund's portfolio, performance and share price.

International investing involves special risks including currency risk, increased volatility, political risks and differences in auditing and other financial standards.

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.