

Strategic Value Dividend Investment Team



Market insights and investment view

December 2023

Objectives update

- **Dividend yield:*** The portfolio's holdings had a weighted average dividend yield at 12/31/23 of more than three times that of the S&P 500®.
- **Dividend growth:** Organic dividend growth was healthy, with more than two-thirds of our companies raising dividends in 2023.
- **Long-term total return:** Our income-first approach seeks to generate competitive long-term total return driven by dividends and dividend growth. Longer-term, the portfolio delivered this return objective, as shown below. 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.¹

*For standard yield of the fund and for total returns, see the chart on page 4.

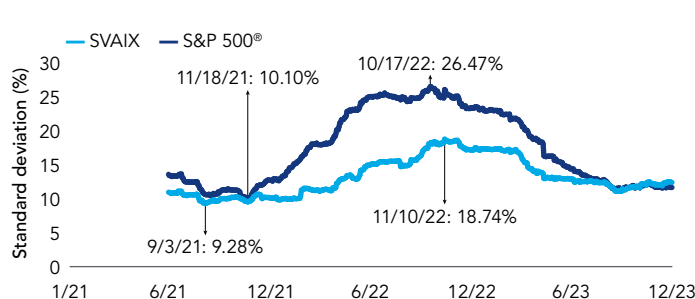
Insights from the team

- **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%.²
- **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 high-dividend index performed best.³

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.⁴ 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, and currently, attractive valuations. We believe that prices should eventually revert to reflect strong company fundamentals more accurately and now is a buying opportunity.

Federated Hermes Strategic Value Dividend Fund provided competitive two and three-year returns with lower volatility
Rolling 6-month volatility



	Annualized returns			Since inception (3/30/05)	Sharpe ratio	
	1-year	2-year	3-year		3-year	Since inception (3/30/05)
SVAIX	-1.81	3.21	8.98	6.91	0.42	0.42
S&P 500® Index	26.29	1.69	10.00	9.96	0.45	0.56
Russell 1000® Value Index	11.46	1.52	8.86	7.68	0.44	0.39
NASDAQ Composite Index	44.64	-1.22	6.04	12.43	0.26	0.60

The graph shows rolling 6-month standard deviation of fund (IS Shares) and index daily returns from 1/4/21 to 12/31/23. Graph shows standard deviation beginning 6/30/21. The fund's (IS Shares) three-year standard deviation based on monthly returns was 15.00% as of 12/31/23; the S&P 500's was 17.29%. **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 4 for standard fund total returns.**

¹ Bank of America Global Research.

² 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®.

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

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

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

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 4.81% is more than 3x the S&P 500® at 1.48% and more than the 10-year Treasury at 3.88%⁵
- R6 Shares have a 30-day SEC yield of 4.13%, IS Shares have a 30-day SEC yield of 4.11% and A Shares at maximum offering price (MOP) have a 30-day SEC yield of 3.65%⁶
- Trailing 12 months there were 38 dividend increases and zero cuts
- Top sector weights: Utilities 21.9% / Financials 15.8% / Health Care 14.0% / Consumer Staples 13.4% / Energy 12.1% (2.1% in Consumer Discretionary and 0.8% in Information Technology)
- 100% of the 46 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. 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 4 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 (%)	4.81	1.48	Philip Morris International Inc.	4.6	5.5
Wtd. median P/E ratio (NTM)	14.05x	22.50x	Duke Energy Corporation	3.9	4.2
Median 3-year average dividend payout ratio	63.58	29.03	TotalEnergies SE	3.9	4.8
Wtd. median price/book	1.68x	6.70x	Verizon Communications Inc.	3.6	7.1
Wtd. median price/cash flow	7.61x	20.89x	LyondellBasell Industries N.V.	3.5	5.3
Portfolio beta vs. S&P 500® (3-year)⁷	0.63	1.00	Amgen Inc.	3.4	3.1
Foreign securities (%)	22.39	0.00	U.S. Bancorp	3.2	4.5
Number of holdings	46	500	Enbridge Inc.	3.0	6.5
			Truist Financial Corp	3.0	5.6
			The Southern Company	3.0	4.0

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.

⁵ Yield for the fund and index is the weighted average dividend yield. The current U.S. 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.

⁶ In the absence of temporary expense waivers or reimbursements, the 30-day yield would have been 4.06% for R6 Shares, 3.52% for A Shares at maximum offering price and 3.98% for Institutional Shares as of 12/31/23.

⁷ Morningstar 3-year beta versus S&P 500® Index calculated using monthly returns.

Past performance is no guarantee of future results.

Monthly trading activity and rationale

	Company	Rationale
Buys	Corning, Inc. (new position) (0.4%)	Corning's glass products sell into end markets that are primarily consumer-facing (TVs, autos and smartphones). Corning has successfully grown content in their markets for years, leaving them less dependent on unit growth to drive revenue. Historical dividend growth and capital return has been driven by management's willingness to flex the balance sheet, which is under levered currently. We expect a 30-35% payout ratio on operating cash flow is appropriate for Corning's cyclical nature, which supports dividend growth of close to mid/high single digits.
	Texas Instruments, Inc. (new position) (0.4%)	Texas Instruments' chips are critical links between the real world and the operation of the devices in which they are used. Texas Instruments has a strong balance sheet and has shown a willingness to grow the dividend even during periods of higher capital expenditure (capex). Higher capex will define a majority of the 2020s as the company expands production capacity. During this period of elevated capital spending, we expect the payout ratio to be higher than normal, but the dividend remains sustainable, and we model low/mid-single digit growth.
	Johnson & Johnson (increased) (0.6%)	Johnson & Johnson sells a broad, balanced portfolio of healthcare products that provide relatively stable earnings growth. They maintain a strong balance sheet, a comfortable dividend payout and command an impressive AAA credit rating. Their Pharma division (50% of revenue) is experiencing accelerating growth as the ramp in relatively new products exceeds the diminishing drag from legacy products that have lost their market exclusivity. The impact of the social distancing measures that were imposed across the world has created pent up demand for medical procedures, which have benefitted Johnson & Johnson's extensive medical device business. All this combined provides for a strong ability to consistently pay and grow the dividend over the long term.
Sells	LyondellBasell Industries N.V. (3.5%), Williams Companies, Inc. (1.7%), PPL Corp. (1.6%) and Unilever PLC (1.0%) were trimmed to provide funds for purchases.	

Figures expressed above are holdings percentages. Unless otherwise noted, all information is as of 12/31/23.

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

	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	-1.79	9.01	7.38	6.77	6.73	4.13	0.86	0.79
IS Shares	SVAIX	-1.81	8.98	7.36	6.78	6.91	4.11	0.94	0.81
A Shares (NAV)	SVAAX	-2.07	8.71	7.10	6.51	6.63	3.87	1.18	1.06
A Shares (MOP)	SVAAX	-7.51	6.69	5.90	5.91	6.31	3.65	1.18	1.06
S&P 500[®] Index	–	26.29	10.00	15.69	12.03	9.96	-	-	-

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). Maximum offering price figures reflect the maximum sales charge of 5.5% for A Shares. See the prospectus for other fees and expenses that apply to a continued investment in the fund.

* 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 4.06% for R6 Shares, 3.74% for A Shares at net asset value (NAV), 3.52% for A Shares at maximum offering price (MOP) and 3.98% for Institutional Shares as of 12/31/23.

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 12/31/23 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 U.S. 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.

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

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

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.

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

Russell 1000[®] Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000[®] 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[®] Value Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

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.

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.