Strategic Value Dividend Investment Team

Market insights and investment view

August 2023

- **Total return:** Dividend-paying stocks have been extremely out of favor in the year-to-date (YTD) risk-on environment. High-yielding S&P 500® stocks have underperformed no/low yielding stocks by 40.21% per FactSet. Given our long-term goals of generating high and rising dividend yield and competitive long-term returns, we own companies with a history of high-dividend yields. Therefore, we have lagged. However, we are watching several compelling themes driving longer term potential. One is a supply/demand imbalance, with a large demographic hitting retirement age, living longer, and in need of income. Even with a fed funds rate at 5.5%, we see high demand for equity in companies that can raise distributions over time to face increased costs as this demographic ages. Also, event risk is back. We have nosebleed segments of the market going to the moon and a lot left behind, increasing the value of having an allocation to a defensive, dividend-oriented portfolio
- **Dividend yield:*** The fund's dividend yield has recently been at a historically attractive level. This is because dividend yield is calculated as a percentage of a stock's current price; when income is up and price is down, the yield is increased. For income-oriented investors, this can be a great opportunity

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

Insights from the team

- **Tech is expensive:** Earnings growth of the largest six companies (NVIDIA, Meta, Amazon, Apple, Microsoft and Alphabet) in the S&P 500® is -26% from 2022 to 6/30/23. Meanwhile, the remaining S&P 500® companies have grown earnings +10% over the same period. Revenue growth of the largest six is -5%. The rest: up +10%. Yet the price-to-earnings ratio of the largest six relative to the full S&P 500® is +8.3 higher, the highest it's been since 2007
- **Recession risk:** We've just experienced the fastest pace of rate hikes in decades, and our research shows that 80% of Fed rate increase cycles resulted in a recession. A high-quality, defensive strategy such as ours should be well positioned to enter a challenging environment. High-dividend-paying stocks have helped lower downside risk, as seen below. This is partly because return from the dividend can help offset share price declines and reduce overall loss. Another reason is that many dividend-paying companies tend to be mature, profitable businesses that operate in the more defensive sectors of the economy (such as Utilities and Consumer Staples), providing necessities that customers rely on, regardless of the market environment
- **The condition of corporate balance sheets:** Companies are paying down debt after decades of declining/low rates. In our conversations with management teams, we're focused on making sure that funding is available for dividend payments, as well as new projects, debt maturities coming due and interest cost, and that companies are able to manage leverage in a slow or slowing economy. We understand that certain companies should spend their discretionary dollars paying down debt. It strengthens the dividend for future generations

Bottom line

- In our opinion, this is a good time to consider taking advantage of the recent underperformance and to be buying dividend stocks at a discount

High-dividend-paying stocks have helped lower downside risk in challenging markets

	Periods of S&P 500® Index declines of -10% or steeper	3/1/73 - 9/30/74	3/1/77 - 3/31/78	6/1/81 - 6/30/82	12/1/87 - 12/31/87	6/1/90 - 10/31/90	7/1/98 - 8/31/98	9/1/00 - 9/30/02	11/1/07 - 2/28/09	10/1/18 - 12/31/18	1/1/20 - 3/31/20	1/1/22 - 9/30/22
Cumulative return (%)	**Fama-French non-dividend payers portfolio**	-55.15	23.16	-38.19	9.99	-31.33	-23.20	-68.14	-51.43	-18.24	-15.09	-33.52
	Fama-French top 30% dividend payers portfolio	-27.32	3.26	-0.08	3.66	-12.94	-9.71	2.77	-55.39	-8.89	-27.87	-7.44
	Relative return	27.83	-19.90	38.11	-6.33	18.39	13.49	70.91	-3.96	9.35	-12.78	26.08

Based on monthly returns. Includes all S&P 500® Index declines of -10% or steeper from 1/1/73 to 7/31/23. Sources: Eugene F. Fama & Kenneth R. French, Morningstar, Inc., Federated Hermes analysis. This is for illustrative purposes only and is not indicative of any specific investment. Actual investments cannot be made in this portfolio. **Past performance is no guarantee of future results.**

Unless otherwise noted, all information is as of 7/31/23. References to NVIDIA Corporation, Meta Platforms, Amazon, Apple, Microsoft Corporation and Alphabet are for illustrative purposes only. They are not holdings of the portfolio as of 7/31/23.

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
- 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 4.84% is more than 3x the S&P 500® at 1.51% and more than the 10-year Treasury at 3.97%[1]
- R6 Shares have a 30-day SEC yield of 4.18%, IS Shares have a 30-day SEC yield of 4.16% and A Shares at maximum offering price (MOP) have a 30-day SEC yield of 3.68%[2]
- Trailing 12 months there were 41 dividend increases and zero cuts; in July, Conagra Brands, Inc., Morgan Stanley, PNC Financial Services Group, Inc., Stanley Black & Decker, Inc., NNN Reit, Inc. and Duke Energy Corporation raised their dividends
- Top sector weights: Utilities 19.8% / Consumer Staples 16.9% / Financials 13.6% / Health Care 13.3% / Energy 13.1%; (1.5% in Consumer Discretionary and 1.0% in Information Technology)
- 100% of the 46 holdings were investment-grade rated (highest S&P-rated holdings: Allianz SE, Zurich Insurance Group AG Ltd. and Sanofi at AA; 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
Wtd. average dividend yield (%)	4.84	1.51
Wtd. median P/E ratio (NTM)	13.50x	22.55x
Median 3-year average dividend payout ratio	62.06	35.74
Wtd. median price/book	1.79x	6.29x
Wtd. median price/cash flow	7.87x	19.47x
Portfolio beta vs. S&P 500® (3-year)[3]	0.62	1.00
Foreign securities (%)	26.25	0.00
Number of holdings	46	500

Top 10 holdings (%)	Weight	Prospective dividend yield
TotalEnergies SE[4]	4.8	5.4
Philip Morris International Inc.	4.6	5.1
Verizon Communications Inc.	4.0	7.7
LyondellBasell Industries N.V.	3.6	5.1
Amgen Inc.	3.6	3.6
Duke Energy Corporation	3.5	4.4
The Southern Company	3.2	3.9
Enbridge Inc.	3.1	6.2
Pfizer Inc.	3.0	4.6
The PNC Financial Services Group, Inc.	3.0	4.5

Unless otherwise noted, all information is as of 7/31/23.

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.

1 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.

2 In the absence of temporary expense waivers or reimbursements, the 30-day yield would have been 4.11% for R6 Shares, 3.55% A Shares at maximum offering price and 4.02% for Institutional Shares as of 7/31/23.

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

4 TotalEnergies SE declared a special dividend valued at 1 euro/share in September 2022. Including the special dividend, TTE FP provided a yield of 7.97% for 2022.

Past performance is no guarantee of future results.

Monthly trading activity and rationale

	Company	Rationale
New purchases and increased positions	Chevron Corp. (new position) (0.52%)	Chevron offers an attractive dividend yield and consistent dividend growth potential. Chevron's balance sheet strength, steady buyback program and willingness to increase the absolute cash dividend burden support this growth trajectory. On low-carbon, we think Chevron has entered markets with appropriate policy support to contribute to near term cash flow, while also seeding longer-term themes like hydrogen and carbon capture.
	Morgan Stanley (new position) (0.26%)	Morgan Stanley is a global leader at scale in wealth management, investment banking and capital markets. Given (1) its fundamental strength as an asset gatherer with strengthening links across its traditional financial advisor channel, its workplace channel and its self-directed E*TRADE channel, (2) its diversification across asset classes and client types and (3) its strong balance sheet, we think Morgan Stanley should be a beneficiary of global wealth creation and capital markets penetration for the foreseeable future. Its growth also will not require significant additional balance sheet capital, meaning it will be able to repurchase a meaningful amount of stock every year. A reduction in the share count will cause upward pressure on earnings per share (EPS) over time, and with a dividend payout ratio well below 50%, dividend per share (DPS) growth should track EPS growth.
	Paychex, Inc. (new position) (0.85%)	Paychex's management team has demonstrated a commitment to the dividend with 35 years of maintaining or growing the dividend. Over the last 5, 10 and 20 years, Paychex has grown its dividend at a high single digit compound annual growth rate (CAGR). Paychex's ability to grow the dividend is supported by its consistent growth rates, high return on capital, strong earnings before interest, taxes, depreciation and amortization (EBITDA) margins and no net debt. We expect Paychex's earnings to grow at a high single digits CAGR over the cycle, above nominal GDP growth. We expect near-term risk to Paychex's earnings because it is highly impacted by macro factors such as initial jobless claims and new business starts. However, we believe the dividend is well supported even in a recessionary scenario.
	The Williams Companies, Inc. (increased) (2.77%)	The William Companies' long-haul, contracted natural transmission assets run under long contract terms and are the primary focus of expansion capital. Gathering and processing assets skew towards natural gas in the Marcellus and Texas basins. Factoring in known expansions, relatively modest gas production growth and a very conservative balance sheet framework, we expect the dividend to sustain low single digit percentage growth rates.
Exited and trimmed positions	AT&T, Inc. (1.87%) and Cisco Systems, Inc. (1.02%) were trimmed to provide funds for purchases.	

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Federated Hermes

Average annual total returns (%) as of 6/30/23

	1-year	3-year	5-year	10-year	30-day yield^	Expense Ratio* Before waivers	Expense Ratio* After waivers
R6 Shares	-1.98	11.62	5.72	7.38	4.27	0.86	0.79
IS Shares	-2.00	11.60	5.70	7.40	4.25	0.94	0.81
A Shares (NAV)	-2.26	11.33	5.43	7.13	3.99	1.18	1.06
A Shares (MOP)	-7.63	9.23	4.26	6.52	3.77	1.18	1.06

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. 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 1/1/24 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 4.20% for R6 Shares, 3.86% for A Shares at net asset value (NAV), 3.64% for A Shares at maximum offering price (MOP) and 4.10% for Institutional Shares as of 6/30/23.

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. 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 signifcant 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.

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.

Compound annual growth rate (CAGR) is a method of measuring an investment's annual growth rate over a period of time, taking into account the reinvestment of profits at the end of each year.

Earnings before interest, taxes, depreciation and amortization (EBITDA) is one way to measure the the profitability of a company.

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.

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.

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 fl uctuations 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.

Because the fund may allocate relatively more assets to certain industry sectors than others, the fund's performance may be more susceptible to any developments which affect those sectors emphasized by the fund.

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.

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Federated Securities Corp., Distributor