Federated Hermes SDG Engagement Equity Fund

Year-to Date as of 30 September 2025

Why has the fund underperformed—and why we're optimistic about the future

2025 has been a year of significant market dispersion. While our engagement-led approach faced headwinds in a risk-on environment, we have taken steps to position the portfolio for structural growth themes such as AI. Despite short-term challenges, we remain constructive on the outlook for the remainder of the year and beyond, supported by attractive valuations, strong earnings expectations, and structural growth drivers.

Market backdrop: What shaped 2025 so far

Global equity markets delivered strong returns this year, driven by resilient corporate earnings, accommodative monetary policy, and structural tailwinds from AI adoption. However, market leadership has been highly concentrated, with a small group of stocks accounting for the bulk of gains. In fact, in Q3, just 1% of the MSCI ACWI SMID Index contributed over 80% of returns in the last six weeks.

Emerging Markets outperformed Developed Markets, supported by easing trade tensions, dollar weakness, and tech strength. Meanwhile, Europe saw a sharp increase in defence spending—Germany raised its allocation to 3% of GDP, and the European Commission paved the way for up to €800bn in additional defence investment. Gold also rallied strongly, benefiting from currency hedging and macro uncertainty.

This environment favoured higher-beta, more cyclical exposures, while quality and low-volatility styles underperformed. In September, unprofitable companies and those with no revenues - the type of companies which our fund seeks to avoid - contributed nearly half of the index return, highlighting risk-on sentiment.

How has this impacted the performance of the fund?

We believe our underperformance reflects our structural positioning and engagement-led approach. We are overweight Industrials and Materials, sectors that offer rich opportunities for positive impact through engagement across their value chains. However, in 2025 we had limited exposure to Aerospace & Defence and Gold—two of the top-performing industries year-to-date. Our underweight to Emerging Markets also weighed on relative returns.

Historically, we have been underweight Information Technology due to limited engagement opportunities. But AI is changing that dynamic. We've evolved our strategy to capture this theme responsibly, increasing exposure to companies where AI adoption aligns with transparent and sustainable principles.

Our sector and regional weights are a direct result of our investment goals, to provide capital appreciation and positive change. Our fund targets the improvement potential of global small and mid-cap (SMID) companies by focusing our engagement efforts and expertise on business model transition potential. We believe that purposeful engagement is the principal mechanism through which investors can have constructive dialogue with companies to create impact and pursue the maximization of long-term shareholder returns.

We believe what sets us apart from other impact strategies is that we perform scalable, firsthand engagement and deep primary research across themes and industries. We engage with our companies across their value chain, from raw materials, suppliers, operations, to the products end of life. This provides the opportunity to better identify mispricing and supply chains rights issues, ensuring the provision of decent work within more resource efficient operations.

Looking ahead: AI and engagement priorities for 2026

AI is no longer confined to mega-cap tech giants. It is reshaping industries across the market cap spectrum, and SMID companies are playing a dual role as both enablers and beneficiaries. This creates differentiated opportunities for investors and a more diversified route into the AI theme.

While AI offers significant upside, it also raises environmental and social challenges—from rising energy use in data centres to workforce disruption and algorithmic bias. As long-term stewards of capital, we believe investors have a vital role in shaping responsible AI adoption.

Our engagement priorities include:

- **Workforce transformation**: Supporting companies in upskilling and inclusive hiring.
- **Digital sustainability**: Encouraging energy-efficient software and infrastructure.
- **Governance maturity**: Driving transparency and ethical AI deployment at board level.

Innovation must be matched by responsibility. Our goal is to ensure companies capture AI's benefits in a way that is inclusive, transparent, and sustainable.

Why we remain constructive

Despite recent challenges, we see multiple tailwinds for Global SMID equities:

- Valuations are attractive after a period of underperformance.
- Earnings expectations for 2026 and 2027 are significantly higher than large-cap peers.
- A declining interest rate environment is supportive, with further rate cuts from the Fed expected to provide an additional boost.

We believe high-quality global SMID companies, combined with our active engagement approach, offer investors a compelling opportunity for both returns and positive impact.

Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. To obtain a summary prospectus or prospectus containing this and other information, contact us or visit FederatedHermes.com/us. Please carefully read the summary prospectus or the prospectus before investing.

Past performance is no guarantee of future results.

MSCI ACWI SMID Cap Index captures mid- and small-cap representation across 23 Developed Markets and 24 Emerging Markets countries. With 7,401 constituents, the index covers approximately 28% of the free float-adjusted market capitalization in each country. Indexes are unmanaged and cannot be invested in directly.

A word about risk

Terminology such as "integrated," "sustainable" or "impact," among other terms, when used in the context of governance, environmental, social and other factors (factors), is not uniformly defined across the industry. Investment managers may understand and apply such other factors in different ways, and that the role those factors play in investment decisions also varies. Therefore, we recommend investors understand the role of such factors in a strategy to ensure that approach is consistent with their investment objectives. Like any aspect of investment analysis, there is no guarantee that an investment strategy that considers such factors will result in performance better than or equal to products that do not consider such factors. Investing and making buy and sell decisions that emphasize such factors carries the risk that, under certain market conditions, the fund or strategy may underperform those that do not incorporate such factors explicitly into the decision-making process. The application of these other factors criteria may affect exposure to certain sectors or securities and may impact relative investment performance depending on whether such sectors or securities are generally in or out of favor in the market.

Mutual funds are subject to risks and fluctuate in value.

The fund's strategy is to target companies that the adviser or sub-adviser believes will contribute positive societal impact aligned to the SDGs. The fund may underperform funds that do not have such a strategy.

The SDGs are as follows: no poverty; zero hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; reduced inequalities; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice and strong institutions; and partnership for the goals.

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

Diversification does not assure a profit nor protect against 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.

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.

Prices of emerging market securities can be significantly more volatile than the prices of securities in developed countries, and currency risk and political risks are accentuated in emerging markets.

Small-cap companies may have less liquid stock, a more volatile share price, unproven track records, a limited product or service base and limited access to capital. The above factors could make small-cap companies more likely to fail than larger companies and increase the volatility of the fund’s portfolio, performance and price. Suitable securities of small-cap companies also can have limited availability and cause capacity constraints on investment strategies for funds that invest in them.

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