

Seeking outperformance and smoother relative returns?

Look at excess return correlation



- A disciplined, rigorous and repeatable approach to active management is well suited to pursue additional returns relative to benchmarks.
- Investors who allocate to a diversified array of such active managers may stand a better chance of realizing outperformance in their aggregate portfolio while experiencing a smoother ride along the way.
- Federated Hermes MDT quantitative equity portfolios don't just have a history of outperformance—they have outperformed differently. Their excess returns have consistently shown low correlation with those of other active managers. That means they provide investors an opportunity to diversify and enhance the risk-adjusted return potential of their equity portfolios.

Why low excess return correlation matters

Active returns across different asset managers can vary widely—even among strategies in the same asset class. Although diversification doesn't assure a profit or protect against loss, combining managers with low excess return correlation can result in more stable or "smoother" relative performance across market cycles and higher risk-adjusted returns.

MDT funds exhibited low excess return correlation with other active managers

Exhibits 1 and 2 below show that all six Federated Hermes MDT equity funds have exhibited low excess return correlation with other active managers, on average. **Exhibit 1** shows the average excess return correlation of each MDT mutual fund with all active funds within its respective Morningstar Category, as well as the average excess return correlation with all actively managed, non-index funds in other Morningstar Categories. To calculate the averages, we first calculated each fund's excess return correlation with every other active fund individually. Then, we calculated the averages by Morningstar Category. All MDT funds' average excess return correlations across all listed categories' averages were below 0.22, with more than 70% below or equal to 0.05.

These results indicate that, whether investors used multiple active managers in a single asset class or a single asset manager to get active exposure across multiple asset classes, MDT could have lowered excess return correlation with those active managers, potentially improving diversification and risk-adjusted returns.

What is excess return correlation?

Excess return is portfolio return minus benchmark return. It shows how much value a portfolio added beyond the benchmark.

Excess return correlation refers to the correlation between the excess returns of two or more portfolios, each measured relative to its benchmark. It indicates how similarly the portfolios performed, excluding beta.

Exhibit 1: 10-year average excess return correlations of MDT funds with other US active equity funds

Federated Hermes MDT fund	Morningstar Category (active funds only)					
	Large Blend	Large Growth	Large Value	Mid-Cap Growth	Small Blend	Small Growth
All Cap Core	0.02	0.11	0.05	-0.09	0.10	0.08
Large Cap Growth	0.01	0.14	0.00	-0.03	0.05	0.04
Large Cap Value	0.00	-0.03	0.04	-0.11	0.04	0.02
Mid Cap Growth	0.03	-0.02	0.04	-0.03	0.11	0.07
Small Cap Core	0.01	-0.02	0.04	-0.01	0.18	0.14
Small Cap Growth	0.04	-0.02	0.04	-0.02	0.21	0.18

As of 12/31/25. Sources: Morningstar, Inc. and Federated Hermes, Inc. Based on monthly Institutional Share (IS) returns. To create the correlation matrix, we first calculated the correlation of each MDT fund's 10-year excess return stream with that of each active fund in the Morningstar Categories shown individually. Then, we segmented the correlations by Morningstar Category. Next, we calculated the averages. Only Morningstar Categories for which a MDT long-only equity fund exists were analyzed.

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. See standard performance on page 5.

Exhibit 2 shows how MDT funds’ excess return correlations have compared to those of other active managers. For example, MDT All Cap Core Fund’s excess return correlation with peers was 86.59% less than the industry average for active all-cap managers. In all instances, the average correlation of MDT’s excess returns with those of other managers was meaningfully lower.

Exhibit 2: Percentage MDT funds’ 10-year excess return correlations were below industry averages

Federated Hermes MDT fund	All Cap Core	Large Cap Growth	Large Cap Value	Mid Cap Growth	Small Cap Core	Small Cap Growth
MDT fund average	0.02	0.14	0.04	-0.03	0.18	0.18
Morningstar Category average (active only)	0.14	0.20	0.12	0.19	0.36	0.31
Percentage MDT’s correlation is below Category average	86.59%	28.81%	61.04%	114.13%	50.40%	41.57%

As of 12/31/25. Sources: Morningstar, Inc. and Federated Hermes, Inc. Based on IS monthly returns. For this analysis, we first calculated the 10-year excess return correlation of every active fund in the Morningstar Categories shown with every one of their Morningstar Category active peers. Then, we calculated the Category averages. Federated Hermes MDT funds were included in the Category averages.

Past performance is no guarantee of future results.

MDT funds’ excess return correlations were low with nearly every active peer

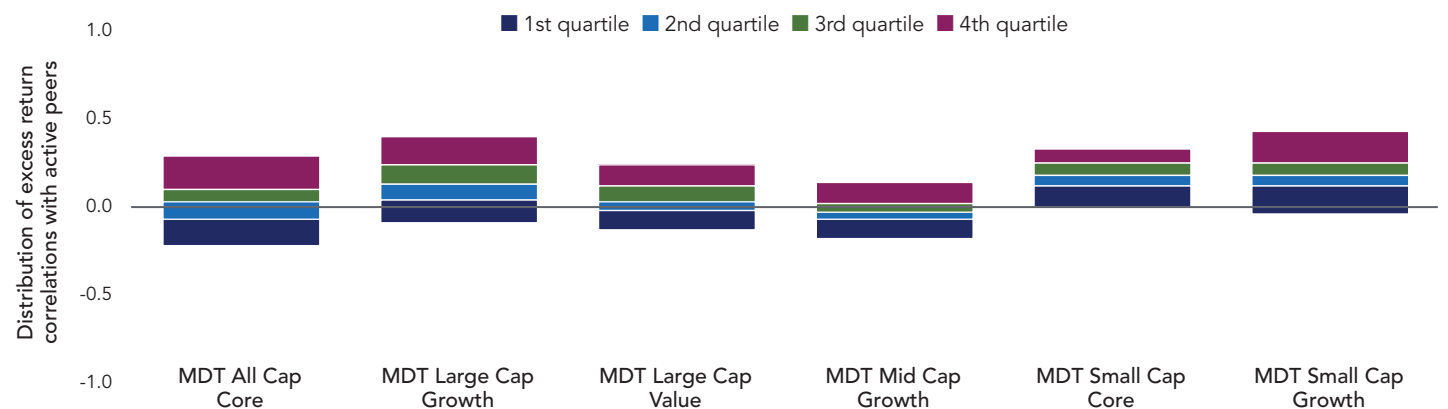
Average correlations of excess returns offer valuable insight into which portfolios may be most likely to provide strong diversification benefits alongside other active funds. Examining the distribution of correlations on an individual basis helps build a more complete picture of a strategy’s potential diversification benefits. If a strategy consistently shows low and tightly clustered excess return correlations, it could offer meaningful diversification benefits, regardless of which other strategies it’s paired with.

Exhibits 3 and **4** indicate that while many managers tended to outperform or underperform in similar ways—often due to shared holdings or factor tilts—MDT has provided differentiated returns.

- **Exhibit 3** below shows the distribution of each MDT fund’s correlation of excess returns with its Morningstar Category active peers
- For each MDT fund, the distribution of excess return correlations with peers remains tightly clustered around zero, indicating that MDT could be an attractive complement to most other approaches

Exhibit 3: MDT funds’ 10-year correlation of excess return with active peers—quartile distribution

Excluding outliers above the 95th percentile and below the 5th percentile, MDT funds’ 10-year excess return correlation with peers were generally between 0.30 and -0.30. A correlation between 0.30 and -0.30 indicates low to no relationship exists and performance is largely independent.



Federated Hermes fund	MDT All Cap Core	MDT Large Cap Growth	MDT Large Cap Value	MDT Mid Cap Growth	MDT Small Cap Core	MDT Small Cap Growth
Highest correlation (outlier)	0.38	0.60	0.33	0.49	0.44	0.57
95th percentile correlation	0.29	0.40	0.23	0.15	0.33	0.43
Average correlation	0.02	0.14	0.04	-0.03	0.18	0.18
5th percentile correlation	-0.22	-0.09	-0.13	-0.18	0.00	-0.04
Lowest correlation (outlier)	-0.30	-0.25	-0.25	-0.29	-0.08	-0.15

As of 12/31/25. Sources: Morningstar, Inc. and Federated Hermes, Inc. Based on IS monthly returns. To create the distributions by quartile, we first calculated every MDT fund’s excess return correlation with every active peer in its Morningstar Category. Next, we removed outliers above the 95th percentile and below the 5th percentile, and segmented the rest with the lowest in the first quartile and the highest in the fourth quartile.

Past performance is no guarantee of future results.

MDT funds' excess returns have complemented those of other managers better than most peers

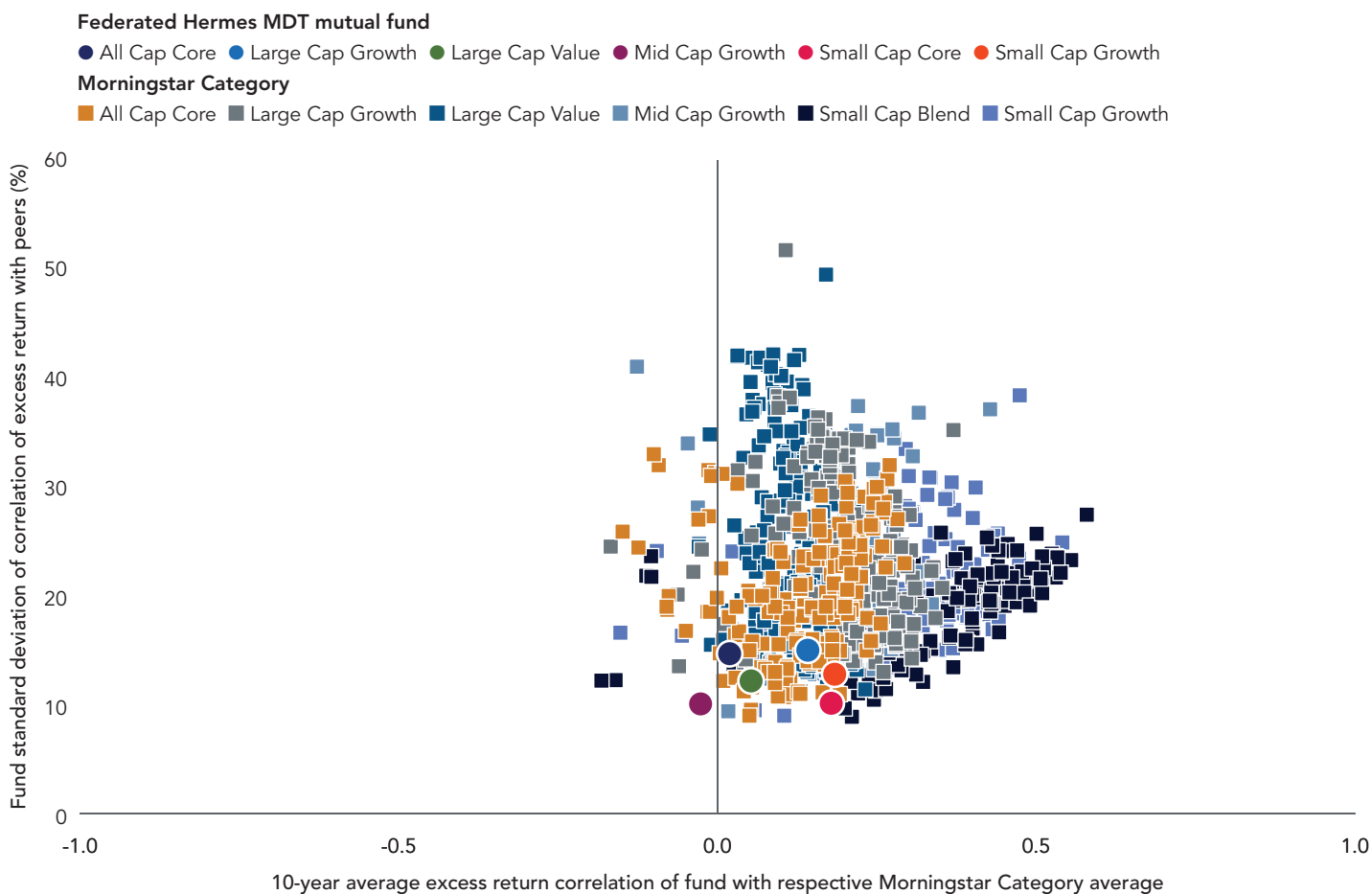
Exhibit 4 compares MDT funds' low correlations with those of its peers.

- The x-axis plots each fund's average excess return correlation with its peers
- The y-axis plots each fund's standard deviation of excess return correlations. For example, MDT All Cap Core Fund's average excess return correlation with peers was 0.02, with a standard deviation of 14.73%
- MDT's standard deviations are low because MDT funds' correlations with each peer were low, so the range of correlations was tight and consistent, regardless of which peer we compared MDT with
- For example, MDT All Cap Core Fund had 190 active peers in the Morningstar Large Blend Category over the last 10 years as of 12/31/25. Including outliers, the fund's excess return correlations with these peers ranged from -0.30 (the lowest) to 0.38 (the highest), with an average of 0.02

Exhibit 4 shows that MDT's low excess return correlation has been consistent across the board. With correlations of excess return hovering around zero, and some of the lowest standard deviations compared to all active funds that were analyzed, MDT's entire suite is positioned to differentiate.

Exhibit 4: All MDT funds showed low and tightly clustered excess return correlations

Each dot represents an active fund in the Morningstar Categories indicated.



As of 12/31/25. Sources: Morningstar, Inc., Federated Hermes, Inc. Based on IS monthly returns. To create the graph, we first calculated every fund's excess return correlation with every active peer in its Morningstar Category. Then, we calculated each fund's average for the x-axis. For the y-axis, we calculated the standard deviation of each fund's excess return correlation with its peers. For example, the Morningstar Large Cap Blend Category contained 191 active funds for the last 10 years as of 12/31/25. The y-axis above plots the standard deviation of the MDT All Cap Core Fund's excess return correlation with its 190 peers.

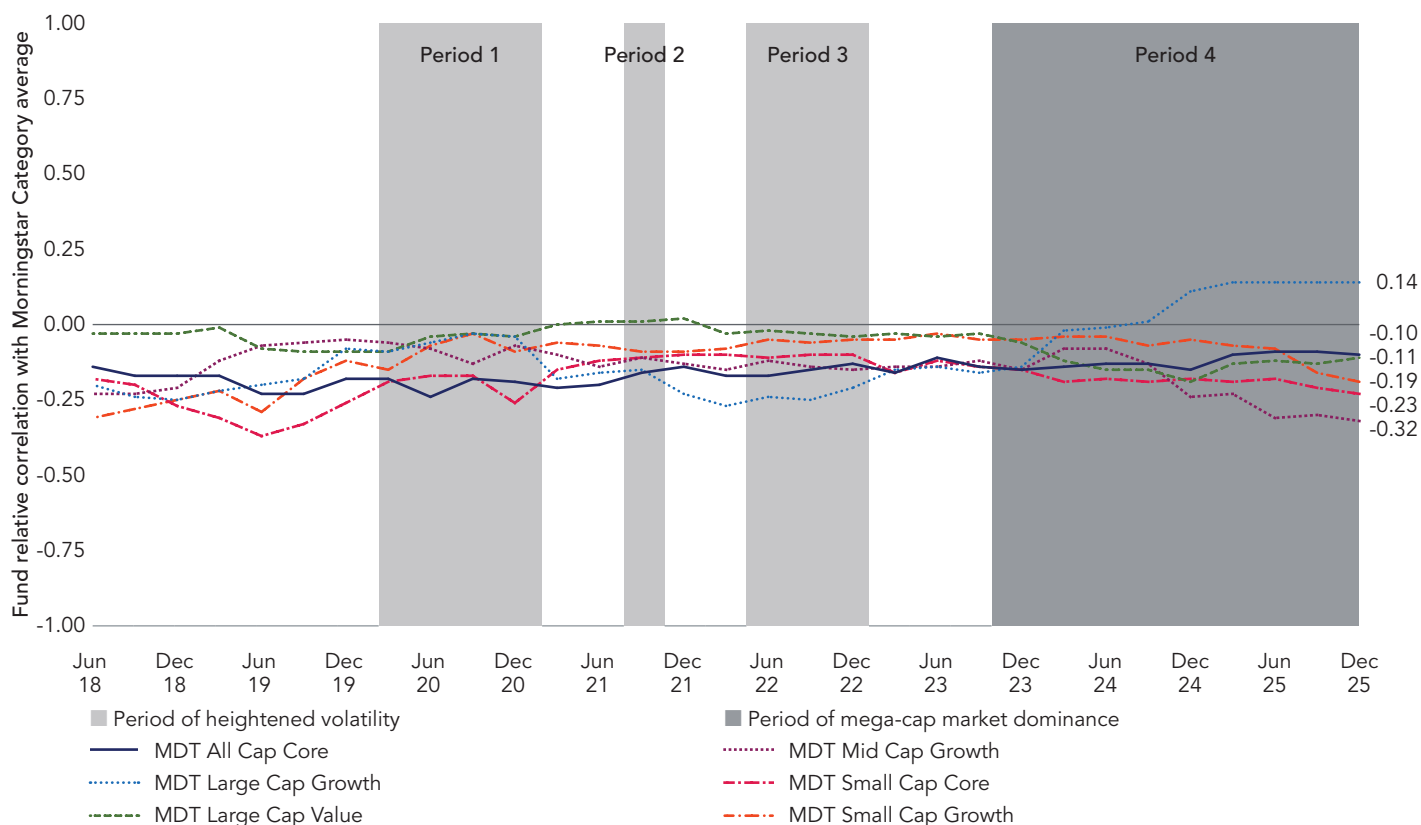
Past performance is no guarantee of future results.

MDT’s excess return correlations remained low over time

Further evidence of MDT funds’ potential to provide strong diversification benefits through low excess return correlations is that MDT’s excess return correlations remained low over time. It is often said that during a crisis, “all correlations go to 1” and everything sells off in lockstep. However, **Exhibit 5** shows that MDT funds’ correlations remained generally lower than peer averages across market conditions.

Exhibit 5: Three-year rolling average relative excess return correlations of funds with Morningstar Category averages

All MDT fund rolling spreads show how far under the average MDT funds were over time—even in periods of market stress or overconcentration.



Period 1: Covid-19 pandemic

Period 2: Covid-19 delta variant concerns

Period 3: Inflation/Fed tightening

Period 4: Period of mega-cap market dominance

As of 12/31/25. Sources: Morningstar, Inc., Federated Hermes, Inc. Lines show Federated Hermes MDT funds’ relative average excess return correlations on a three-year rolling basis. Based on monthly IS returns. For this analysis, we first calculated the three-year excess return correlation of every active fund in the Morningstar Categories shown with every one of their Morningstar Category active peers, every quarter for the last seven years (using 10 years of data). Federated Hermes MDT funds were included in the Category averages. Then, we calculated each fund’s average for every quarter. Next, we calculated the quarterly averages for each Morningstar Category and compared them to each Federated Hermes MDT fund’s average. Each data point is the difference between the fund’s three-year average excess return correlation with peers (minus) the average excess return correlation of every active fund in the Morningstar Category with each of its peers over the same period.

Past performance is no guarantee of future results.

Periods of heightened volatility indicate when the VIX Volatility Index was above 20%.

Mega-cap market dominance refers to the Magnificent 7 stocks (Apple, Inc., Amazon.com, Inc., Alphabet, Inc., Meta Platforms, Inc., Microsoft Corp., NVIDIA Corp. and Tesla, Inc.) and their high concentration in the S&P 500®, which ranged from 27.4% to 34.8% on a quarterly basis from 6/30/23 to 12/31/25.

Conclusion: MDT equity funds may offer more than a history of outperformance vs. peers and benchmarks

Exhibit 6: Annualized total returns (%) and peer rankings as of 12/31/25

Federated Hermes mutual fund performance numbers in **bold** represent periods of outperformance vs. benchmark.

■ Rank 1-25 ■ Rank 26-50 ■ Rank 51-75 ■ Rank 76-100

Federated Hermes mutual fund	Ticker	Annualized total returns (%)				Morningstar % rank/# of funds in category				Expense ratio*	
		1-year	3-year	5-year	10-year	1-year	3-year	5-year	10-year	Gross	Net
MDT All Cap Core											
IS Shares	QIACX	20.24	24.86	17.04	16.25	10	8	3	1	0.92	0.75
A Shares (MOP)	QAACX	13.28	22.17	15.38	15.26	11	10	4	2	1.17	1.05
Benchmark: Russell 3000®	–	17.15	22.25	13.15	14.29	–	–	–	–	–	–
US Fund Large Blend	–	15.54	20.08	12.67	13.32	1,314	1,210	1,122	880	–	–
MDT Large Cap Growth											
IS Shares	QILGX	18.45	31.11	17.22	18.57	29	31	2	7	0.87	0.75
A Shares (MOP)	QALGX	11.65	28.35	15.61	17.61	33	33	2	8	1.11	1.00
Benchmark: Russell 1000® Growth	–	18.56	31.15	15.32	18.13	–	–	–	–	–	–
US Fund Large Growth	–	16.10	27.59	11.28	15.25	1,080	1,004	936	755	–	–
MDT Large Cap Value											
IS Shares	FMSTX	19.66	18.33	15.30	12.35	10	10	3	13	0.89	0.77
A Shares (MOP)	FSTRX	12.86	15.86	13.76	11.47	12	11	4	16	1.12	0.99
Benchmark: Russell 1000® Value	–	15.91	13.90	11.33	10.53	–	–	–	–	–	–
US Fund Large Value	–	14.97	13.88	11.66	10.74	1,107	1,059	995	832	–	–
MDT Mid Cap Growth											
IS Shares	FGSIX	9.86	23.16	11.67	14.97	30	7	3	5	0.97	0.85
A Shares (MOP)	FGSAX	3.51	20.50	10.09	14.00	32	8	3	6	1.30	1.15
Benchmark: Russell Midcap® Growth	–	8.66	18.64	6.65	12.49	–	–	–	–	–	–
US Fund Mid-Cap Growth	–	7.67	15.15	3.69	10.91	490	472	446	371	–	–
MDT Small Cap Core											
IS Shares	QISCX	14.13	16.48	9.62	11.69	11	8	20	7	0.99	0.89
A Shares (MOP)	QASCX	7.56	14.01	8.11	10.79	11	8	23	9	1.34	1.14
Benchmark: Russell 2000®	–	12.81	13.73	6.09	9.62	–	–	–	–	–	–
US Fund Small Blend	–	7.89	11.84	7.63	9.42	624	588	569	437	–	–
MDT Small Cap Growth											
IS Shares	QISGX	17.09	17.44	6.45	11.75	10	17	18	19	1.13	0.89
A Shares (MOP)	QASGX	10.35	14.95	4.99	10.83	11	18	19	22	1.41	1.14
Benchmark: Russell 2000® Growth	–	13.01	15.59	3.18	9.57	–	–	–	–	–	–
US Fund Small Growth	–	8.06	13.01	2.93	10.30	531	518	496	389	–	–

Morningstar peer group performance and percentile rankings use each fund's current Morningstar Category as of 12/31/25. Source: Morningstar, Inc. Rankings are based on total return and do not consider sales charges. Returns are for Institutional and A Shares. Other classes of shares are available whose performance will vary due to different charges and expenses. Returns for periods longer than one year are annualized.

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 funds' expense ratios are from their most recent prospectuses. Expense ratios may reflect voluntary fee waivers and/or expense reimbursements determined by the funds' Advisor and affiliates. The voluntary waivers and/or reimbursements, if applicable, are in effect up to but not including the later of each fund's next effective prospectus or 10/1/26 for MDT All Cap Core Fund, Large Cap Growth Fund, Small Cap Core Fund, Small Cap Growth Fund, 1/1/27 for MDT Large Cap Value Fund and Mid Cap Growth Fund.

Not all funds shown are offered on all intermediary programs. Consult with your Federated Hermes representative about availability.

MDT funds' excess returns have moved differently than most, providing the opportunity for true diversification

MDT's repeatable, systematic process is different. Unlike traditional fundamental managers that tend to favor certain styles or factors, MDT:

Seeks diverse alpha sources.

- MDT portfolios seek diverse opportunities by investing across various types of companies, each with different style or risk characteristics.

Limits factor bias.

- MDT portfolios don't lean toward a particular style or factor, unlike other active managers who may incorporate a specific focus that aligns with the manager's philosophy, such as quality, value, small cap or dividends, to narrow the field of potential investments. MDT aims to build portfolios that have the potential to not just outperform over time, but deliver more consistent performance in many market environments, not just when certain factors are in favor.

Avoids crowding into the same trades as other managers.

- MDT seeks to mitigate risks of being concentrated in a particular sector or factor. Instead, the portfolios' active risks are allocated to stock picking, which ultimately has driven performance over time.

This has resulted in distinct return patterns that can complement, not mimic, other managers.

Takeaway

Federated Hermes MDT funds have a history of outperformance and differentiated excess returns that may help smooth relative returns and strengthen investors' portfolios.

**Investment professionals:
Contact your Federated Hermes relationship consultant
or call 1-888-400-7838 to see how MDT
can complement your current manager lineup**

Seeking outperformance and smoother relative returns?



For more complete information, visit FederatedHermes.com/us or contact your Federated Hermes sales professional for summary prospectuses or prospectuses. You should consider the fund's investment objectives, risks, charges, and expenses carefully before you invest. Information about these and other important subjects is in the fund's summary prospectus or prospectus which you should read carefully before investing.

All analysis was based only on active funds in each Morningstar Category for which a Federated Hermes MDT long equity fund exists.

Morningstar Category identifies funds based on their actual investment styles as measured by their underlying portfolio holdings over the past three years. If the fund is less than three years old, the category is based on the life of the fund. ©2026 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

The MDT Large Cap Value Fund is the successor to the Federated MDT Large Cap Value Fund pursuant to a reorganization completed on December 8, 2017. The predecessor fund is both the tax and accounting survivor of the reorganization. The performance information, including information on fees and expenses and financial information provided above for periods prior to December 8, 2017, is historical information for the predecessor fund. The predecessor fund's A Shares commenced operations on May 1, 2014. The predecessor fund's IS Shares commenced operations on January 29, 2010. For the periods prior to the commencement of operations of the predecessor fund's A and IS Shares, the performance information is that of the predecessor fund's SS Shares. The performance of the SS Shares has not been adjusted, except for sales charges, to reflect the expenses applicable to the A Shares since the A Shares have the same net expense ratio as the SS Shares. The performance of the SS Shares has also not been adjusted to reflect the expenses applicable to the IS Shares since the IS Shares have a lower expense ratio than the expense ratio of the SS Shares.

A word about risk

Growth stocks tend to have higher valuations and thus are typically more volatile than value stocks. Growth stocks also may not pay dividends or may pay lower dividends than value stocks.

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.

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

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 share price. Suitable securities of small-cap companies also can have limited availability and cause capacity constraints on investment funds for funds that invest in them.

The quantitative models and analysis used by the fund's adviser may perform differently than expected and negatively affect fund performance.

Diversification does not assure a profit nor protect against loss.

Investing in equities is speculative and involves substantial risk.

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.

Value stocks tend to have higher dividends and thus have a higher income-related component in their total return than growth stocks. Value stocks also may lag growth stocks in performance, particularly in late stages of a market advance.

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

Mutual funds are subject to risks and fluctuate in value.

Definitions

Alpha is a measure of excess performance.

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.

Correlation measures from how close two data series are to having a linear relationship from -1 to +1. In the context of manager performance, a correlation of +1 means they move in lockstep, offering no diversification. A -1 correlation means they move in opposite directions, potentially canceling each other out.

Standard deviation is a statistical measurement of dispersion about an average which depicts how widely the returns varied over a certain period of time. The higher the standard deviation, the greater the volatility.

Russell 3000® Index: Measures the performance of the 3,000 largest US companies based on total market capitalization, which represents approximately 98% of the investable US equity market.

Russell 1000® Growth Index: Measures the performance of the large-cap growth segment of the US equity universe. The index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment.

Russell 1000® Value Index: Measures the performance of the large-cap value segment of the US equity universe. The index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment.

Russell 2000® Index: Measures the performance of the small-cap segment of the US equity universe. The index is constructed to provide a comprehensive and unbiased small-cap barometer.

Russell 2000® Growth Index: Measures the performance of the small-cap growth segment of the US equity universe. The index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment.

Russell Midcap® Growth Index: Measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000® Growth Index. Indexes are unmanaged and cannot be invested in directly.