



Strategic Value  
Dividend

 **Sustainable dividends  
require sustainable  
business models**

ESG integration in Federated Hermes  
Strategic Value Dividend strategies

## Executive Summary

- Environmental, social and governance (ESG) research is a natural extension of our Strategic Value Dividend investment process as we assess a company's ability to pay and increase its dividend over time.
- The integration of active engagement and proprietary ESG investment tools helps us assess the risks and opportunities that a company must confront in order to sustain and grow its business and distribute cash flows.
- The Strategic Value Dividend team quantifiably measures the percent of the portfolio being actively engaged and the percent of engagement milestones achieved, showcasing ESG progress.

At Federated Hermes, we believe that incorporating ESG factors into our research across asset classes provides greater insight into investment risks and opportunities. There is little dispute that the assessment of ESG factors can reveal important information about a company's practices and leadership. However, extracting value from ESG factors within a portfolio can depend on how they are incorporated into the investment process.

To this end, Federated Hermes' global team of engagement and responsible investing experts provide proprietary ESG data and analytics, which our investment teams use to manage risk and identify opportunities. A key input of our data comes from our leading engagement and stewardship division, EOS at Federated Hermes. EOS's direct engagement with companies is not only important to obtain insights into a company's ESG practices, it can also improve an issuer's ESG profile and thereby seek to reduce the issuer's risks over the longer term. Using our engagement and other proprietary ESG data, we generate custom "materiality" assessments that focus on long-term ESG considerations that are financially relevant to each industry. Our investment teams use our ESG data analytics, materiality assessments and engagement in ways that are appropriate to their specific strategies in order to seek better outcomes for our clients.

### How active ESG integration can add value in Strategic Value Dividend

Since 2001, Federated Hermes' Strategic Value Dividend strategies have focused on pursuing a high level of current income and long-term capital appreciation driven by dividend growth. Our philosophy is grounded in the conviction that we are investors in structurally sound businesses. As such, we believe a diversified portfolio of high dividend-paying stocks with a rising dividend income stream can produce attractive risk-adjusted returns over time.

History supports the fact that much of the long-term total return of the market is the result of dividend income and growth in that dividend stream over time.\* The strategy pursues its objectives with half of the total return target coming from current dividend income and the other half from dividend-growth prospects of portfolio companies.

The Strategic Value Dividend team members, like many of their investors, are long-term investors. The incorporation of ESG factors is a natural extension of our primary research, providing unique insights into a company's strategic direction and a more comprehensive view of the risks and opportunities inherent in a security. A full suite of company-level and portfolio-level ESG analytical tools aid in due diligence and risk monitoring. Analysts use the Federated Hermes proprietary ESG dashboards and governance tools to help evaluate an issuer's ESG exposure and momentum.


\*Source: Robert Shiller database, Yale University and Federated Hermes.

**Past performance is no guarantee of future results.**

The team remains focused on its core process of business fundamentals, cash flows, balance sheets and the outlook for dividend growth – the same as we have since the strategy's inception. With the integration of proprietary ESG research, alongside other fundamental tools, we can formulate a more complete picture of the risks that each company must navigate in order to sustain its business and its dividend over the long run. Given our longer investment horizons, identifying and managing material business risk is part and parcel with pursuing a high and rising income stream that adequately compensates our clients for that risk.

### Proactive engagement

A long-term responsible investor cannot rely on third-party research alone. A more authentic approach is proactive, forward-looking engagement with the senior leadership of portfolio holdings. This is an important attribute for dividend investors, helping us assess a company's ability to provide the constant, long-term cash flows necessary to finance dividends. The Strategic Value Dividend investment team has always engaged with portfolio holdings to evaluate business fundamentals. ESG engagement insights provided by our in-house stewardship team, EOS, serves as a complimentary vantage point in evaluating relevant and material ESG factors across all sectors. We believe directly interacting with a board and management team helps us determine where a company is strategically headed, thereby combining the best of both fundamental and ESG due diligence.



When it comes to dividend investing, a thorough understanding of material ESG risks is instrumental in assessing a company's ability to sustain its dividend over the long run.

# EOS: The engagement advantage

Federated Hermes is one of the largest active managers with a dedicated engagement and stewardship division. EOS at Federated Hermes is a pioneer in the engagement space with a 17-year database that can provide a competitive advantage for the Strategic Value Dividend strategies and our firm. Engagers are ESG subject-matter experts on topics such as climate change, human capital management, sustainable supply chains and corporate governance and are uniquely positioned to assess the ESG progress and momentum of a corporate issuer.

EOS specialists have deep industry-specific knowledge, with extensive experience in particular sectors and on the select companies they cover. EOS engages on material ESG objectives along with key environmental, social, governance and strategic themes which comprise 36 unique sub-themes. Engagers provide meaningful insight into a company's willingness and ability to manage ESG risks. By integrating engagers' deep understanding of financially relevant ESG factors, our portfolio managers are better equipped to assess the quality of current and potential holdings. [Learn more about EOS at Federated Hermes here.](#)

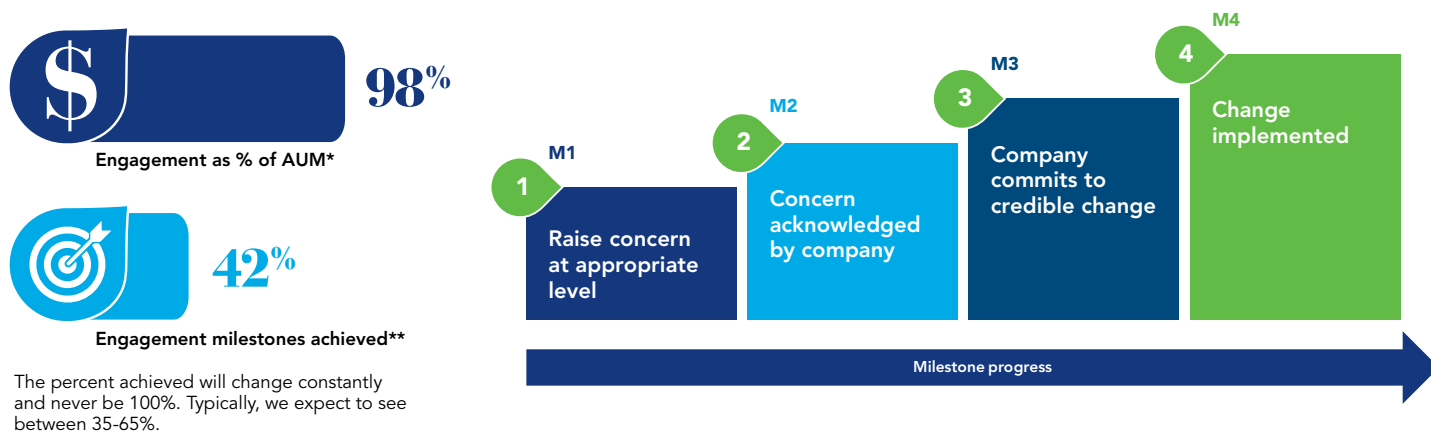
## Material engagement objectives





## Measurable engagement coverage and ESG progress

EOS at Federated Hermes is a pioneer of active stewardship with a 17-year engagement database housing quantifiable ESG insights. Each corporate engagement has specific objectives based on material ESG issues and every interaction with the company is documented in the EOS repository. As EOS engagers document a company's ESG progress through a proprietary milestone system, our data analytics measure various portfolio-level engagement statistics. The Strategic Value Dividend team is able to quantify the percent of the portfolio being actively engaged, the specific environmental, social and governance themes of current engagement focus, and the percent of engagement milestones achieved showcasing ESG progress.



The percent achieved will change constantly and never be 100%. Typically, we expect to see between 35-65%.

As of 6/30/21.

\*Engagement as a percent of AUM is the percent of the fund's AUM engaged, out of the fund's engageable assets. The following securities that are not engageable are excluded from this calculation: U.S. Treasury securities, derivative contracts, sovereign bonds or 3rd party pooled vehicles.

The fund may invest in affiliated funds and, where applicable, the engagement numbers reflect exposure to the underlying securities held by the affiliated funds and the engagements for those funds are included within the overall percentages. However the engagement objectives and engagement interactions totals do not include numbers related to investments in affiliated money market funds.

\*\*Engagement milestones achieved is the percentage of EOS engagements whose objectives moved forward by at least one milestone over the trailing 12-months.

## The ESG journey continues

The core objective of ESG integration is to improve our understanding of companies' business risk, helping them become more resilient and more capable of sustaining their dividend payouts over time. Mitigating ESG risks through proactive engagement is therefore at the heart of ESG integration for dividend investors.

The Federated Hermes Strategic Value Dividend team remains focused on pursuing a high level of current income and long-term capital appreciation driven by dividend growth. We believe the addition of environmental and social analysis into their already robust assessment of governance factors provides the team with the insights necessary to invest in sound, dividend-paying businesses for our client portfolios.

**Investors should carefully consider the Federated Hermes Strategic Value Dividend 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 [FederatedInvestors.com](http://FederatedInvestors.com). Please carefully read the summary prospectus or prospectus before investing.**

Separately managed accounts are available through Federated Investment Counseling, a registered investment adviser.

### A word about risk

There is no guarantee any investment approach will be successful.

Past performance is no guarantee of future results.

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.

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

ESG investments may be viewed as "sustainable," "responsible" or "socially conscious," among other names. ESG factors may be utilized and evaluated differently by different investment managers and may mean different things to different people. Investing based in part on ESG factors carries the risk that, under certain market conditions, the investment strategy may underperform strategies that do not utilize such factors. The application of responsible investment criteria may affect exposure to certain sectors or types of investments and may impact relative investment performance depending on whether such sectors or investments are in or out of favor in the market. An investment's ESG performance or an investment manager's assessment of such performance may change over time. The successful application of ESG factors is dependent on an investment manager's skill in properly identifying and analyzing material ESG issues, and the suitability of ESG investments may change over time.