



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 the Strategic Value Dividend investment process that assesses a company's viability to pay and increase its dividend over time.
- The integration of firsthand engagement and proprietary ESG investment tools aids evaluation of risks and opportunities a company must confront to sustain and grow its business and distribute cash flows.
- The Strategic Value Dividend team 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 additional insight into investment risks and opportunities beyond traditional fundamental research. The assessment of ESG factors can reveal important information about a company's practices and leadership. Extracting value from ESG factors within a portfolio can hinge on how they are incorporated into the investment process.

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 in obtaining insights into a company's ESG practices, it can lead to the improvement of an issuer's ESG profile and potentially 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 to seek better investment results for our clients.

How active ESG integration can add value in Strategic Value Dividend

Since 2001, Federated Hermes' Strategic Value Dividend approach has pursued 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. 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 stock market's long-term total return is the result of dividend income and the growth in that dividend stream over time.* Thus, half of the total return expectation comes from current dividend income and the other half from dividend-growth prospects of owned 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.


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

Past performance is no guarantee of future results.

The team remains focused on the same core factors as it has since the strategy's inception — business fundamentals, cash flows, balance sheets and the outlook for dividend growth. 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

ESG analysis cannot rely on third-party research alone. A more authentic approach is forward-looking engagement with a company's senior leadership. 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 team has always engaged with companies they own to evaluate business fundamentals. ESG engagement insights provided by EOS complements our evaluation of 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 19-year database that can provide a competitive advantage for the Strategic Value Dividend strategies. Engagers are ESG subject-matter experts on climate change, human capital management, sustainable supply chains, corporate governance and other topics. They are uniquely positioned to assess the ESG progress and momentum of a corporate issuer.

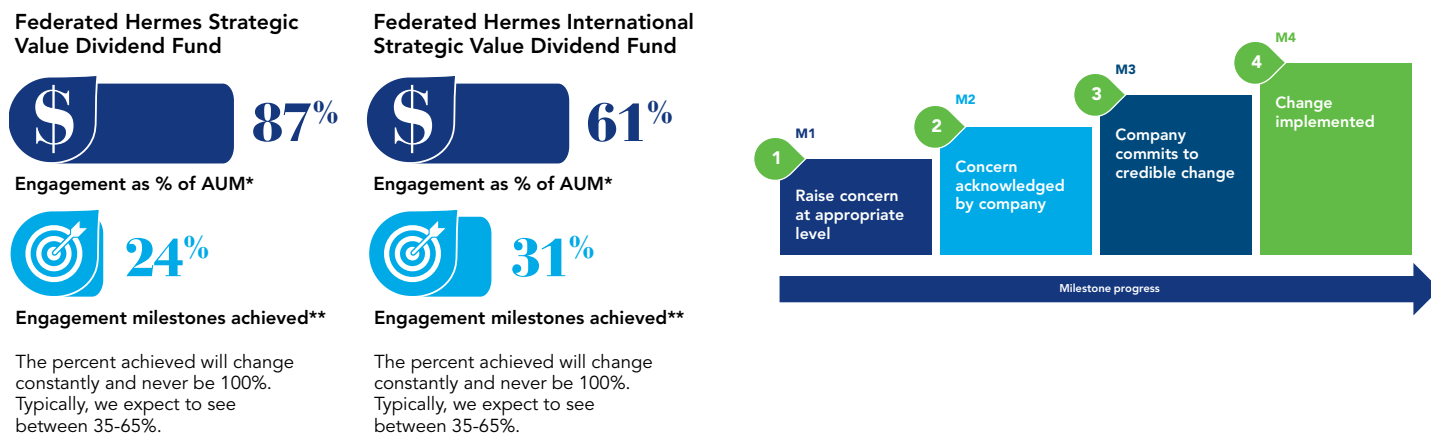
EOS specialists have deep industry-specific knowledge, with extensive experience in particular sectors and on the select companies they cover. EOS engages on material ESG objectives along with key environmental, social, governance and strategic themes which comprise 36 unique sub-themes. Engagers provide 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

Each corporate engagement has specific objectives based on material ESG issues and every interaction with the company is documented. 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.



As of 6/30/22.

*Engagement numbers represent the percentage of the fund's engageable securities. These numbers do not include U.S. Treasury securities, derivative contracts, sovereign bonds or third-party pooled vehicles.

The engagement statistics outlined above represent Federated Hermes Strategic Value Dividend Fund and Federated Hermes International Strategic Value Dividend Fund respectively. The funds 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 a company's business risks, so that we can better assess a company's capability for sustaining dividend payouts over time. Mitigating ESG risks through proactive engagement is 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 factors into an already robust assessment of governance provides the team with insights to invest in sound, dividend-paying businesses for our client portfolios.

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 [FederatedInvestors.com](https://www.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.

Terminology such as "ESG integrated", "sustainable" or "impact", among other terms, is not uniformly defined across the industry. Investment managers may understand and apply ESG factors in different ways, and that the role those factors play in investment decisions also varies. Therefore, we recommend investors understand the role of ESG 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 ESG 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 ESG 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 ESG 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.