Core Plus Bond Fund

As of 31 Dec 2025

DIAMOND HILL
INVESTED IN THE LONG RUN

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Market review and outlook

The Bloomberg US Aggregate Bond Index returned 1.10% during Q4, bringing year-to-date performance for the index to 7.30%, the best annual performance since 2020. After lowering the Fed funds rate by 100 basis points (bps) in 2024 and an additional 75 bps in 2025, market expectations are for the Federal Reserve to remain on hold for the foreseeable future. The one caveat to this outlook: changes at the Federal Reserve, including the unresolved court case for Lisa Cook, the pending departure of Jerome Powell, and potential dovish appointments from the current administration. While the labor market has shown signs of weakness — the unemployment rate averaged 4.2% in 2025 and rates for recent months have been trending higher — the current rate is significantly lower than the 40-year average of 5.7%. From an inflation standpoint, the recent lowering trend bodes well for the consumer, as Core CPI dipped to 2.6% in the most recent data, following a period of holding at or slightly above 3% in prior months.

Updates by sector

Treasury

The yield curve extended its year-long steepening trend into Q4. The 30-year Treasury yield rose 11.3 bps in Q4 on uncertainty around the future path of inflation, ending the year at 4.84%, while the two-year Treasury yield fell 13.5 bps to 3.47%. The market moved ahead of the Fed early in the year, pushing the two-year yield lower before the Federal Reserve followed. By year end, however, expectations and policy had converged: the Fed cut the federal funds rate by 75 bps over the final four months of the year and the two-year Treasury yield declined nearly 77 bps in 2025.

Corporate

The investment-grade corporate market, as measured by the Bloomberg US Corporate Bond Index, struggled in Q4, posting the lowest quarterly return of 2025 (+0.84%) and the weakest result since Q4 2024 (-3.04%). Spreads reversed course and widened nearly 4 bps during the quarter, rising from 73.8 bps to 77.5 bps. After bottoming in late Q3 at 71.7 bps — a level not seen since May 1998 — spreads widened to as much as 84.9 bps in late November amid heightened economic uncertainty before tightening into year end. The high yield corporate market followed a similar trajectory, returning 1.31% in Q4, ahead of only Q1 from a total return standpoint (1.00%). Spread movement was similar to the investment-grade market, tightening roughly 20 bps over the past year but only 1 bps during Q4.

Securitized

Spreads in securitized credit followed a similar trajectory to other asset classes — tightening from 2024 until volatility around Liberation Day, then resuming their grind tighter into year end. The notable exception was auto asset-backed securities (ABS), where spreads remained modestly wider year over year, in part due to disruption from the Tricolor bankruptcy. Even with broad-based spread compression, the higher-yielding, better-structured parts of securitized credit continued to offer more compelling relative value for managers willing to do the work on structure and collateral analysis. Issuance closed the year on a strong note, with the best December in several years and record full-year 2025 volume.

Q4 performance review

Key contributors

- Strong performance from the portfolio's high yield allocation, which outpaced both the Bloomberg US Corporate High Yield Index as well as the overall Bloomberg US Aggregate Bond Index.
- Security selection within non-agency commercial mortgage-backed securities (CMBS) led to outperformance as non-benchmark eligible segments of this market delivered strong relative returns.
- Within the non-agency residential mortgage-backed securities (RMBS) allocation, reverse mortgages and second lien mortgages contributed most to relative performance.

Key detractors

- The portfolio's underweight to Treasurys and longer duration posture relative to the benchmark detracted from results, as the yield curve continued to steepen in Q4.
- Non-corporate credit contributed positively to the benchmark's performance but was not held in the portfolio; however, the benchmark's limited exposure to the sector muted the overall impact.
- Agency RMBS delivered strong performance during the quarter and while the portfolio's allocation kept pace, the sizable underweight in favor of collateralized mortgage obligations (CMOs) resulted in a negative impact to relative performance.

2025 performance review

Key contributors

- The high-yield allocation of the portfolio (+10.05%) significantly outperformed the Bloomberg US Aggregate Bond Index (+7.30%) and the Bloomberg High Yield Index (+8.62%) in 2025.
- The stability of the portfolio's structured CMOs over plain vanilla passthroughs during a rather chaotic interest rate environment in 2025 contributed to relative performance.
- The portfolio's emphasis on non-benchmark securitized sectors, including non-agency RMBS and non-agency CMBS — primarily commercial real estate collateralized loan obligations (CRE CLOs) and multifamily — contributed to relative performance during the year.

Key detractors

- The year-long steepening of the Treasury curve detracted from relative performance, as the portfolio holds a longer duration posture in the sector compared to the benchmark.
- Non-corporate credit contributed meaningfully to benchmark performance but was not held in the portfolio; however, the benchmark's limited exposure to the sector muted the overall impact.
- An underweight to agency passthrough RMBS relative to the benchmark detracted from performance in 2025, partially offset by strong performance from the portfolio's CMO allocation.

Bonds rated AAA, AA, A and BBB are considered investment grade.

Period and Annualized Total Returns (%)	Since Inception (15 Oct 2024)	1Y	YTD	4Q25	Expense Ratio (%)
Class I (DHNIX)	6.04	8.03	8.03	1.11	0.57
Bloomberg US Aggregate Bond Index	4.29	7.30	7.30	1.10	–