

Securitized Total Return Fund

DIAMOND HILL

INVESTED IN THE LONG RUN

As of 31 Dec 2025

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Market review and outlook

The Bloomberg US Securitized: MBS, ABS and CMBS Index returned 1.68% during Q4, bringing year-to-date performance for the index to 8.49%, the best annual performance for the index since 2002. 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

Securitized

Spreads in the securitized market followed a similar trajectory of other asset classes — tightening from 2024 until the volatility around Liberation Day, then resuming their grind tighter into year end.

- Asset-backed securities (ABS) saw spreads move lower year over year, though volatility increased in late Q3 as disruption in the subprime auto ABS market pushed spreads wider. Uncertainty around the Tricolor bankruptcy kept spreads wider during Q4, presenting opportunity for investors willing to separate the noise from reality. Other areas of the market, including consumer unsecured and credit card ABS, continued to perform well despite economic uncertainty. Shorter-duration, benchmark-eligible ABS returned 1.25% in Q4 and 5.93% for calendar year 2025.

- Non-agency commercial mortgage-backed securities (CMBS), similar to other spread sectors (non-Treasury), saw spreads tighten throughout the year. Short periods of spread widening occurred intermittently, largely in response to tariff-related and broader economic news. Benchmark-eligible non-agency CMBS saw spreads compress from 127.9 bps at the start of the year to 121.0 bps by year end and were essentially unchanged from the start of the fourth quarter (122.0 bps) through year end. The sector returned 1.42% for the quarter and 7.76% for calendar year 2025, while agency CMBS returned 1.27% and 7.74% over the same periods.
- Agency residential mortgage-backed securities (RMBS) saw spread levels range from a high of 48.9 bps during Liberation Day-related volatility to a low of 19.8 bps near year end, finishing the year at 21.8 bps. During Q4, spreads compressed from 30.7 bps to 21.8 bps. Agency RMBS, as measured by the Bloomberg US MBS Index, returned 1.71% in Q4 and 8.58% for calendar year 2025, outperforming the Bloomberg US Treasury Index (6.32%) and the Bloomberg US Corporate Index (7.77%).

Q4 performance review

The Diamond Hill Securitized Total Return Fund returned 1.07% during Q4, trailing the Bloomberg US Securitized: MBS, ABS and CMBS Index by 61 bps.

Key contributors

- Though the overall allocation to CMBS detracted from relative performance, strength in commercial real estate collateralized loan obligations (CRE CLOs), retail and industrial were all additive to relative performance.
- Non-agency RMBS, which are excluded from the benchmark, generated strong returns ahead of the overall benchmark as reverse mortgages and residential transition loans led the sector.
- Within the portfolio's ABS allocation, non-benchmark eligible subprime auto ABS outpaced the benchmark and overall portfolio, contributing to Q4 relative performance.

The performance quoted represents past performance. Past performance is not indicative of future results. Investment returns and principal values will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance quoted.

Key detractors

- With the benchmark overwhelmingly allocated to agency RMBS (more than 92% of the overall allocation), strong performance from this segment of the market detracted from relative performance, though the portfolio’s collateralized mortgage obligation (CMO) allocation helped to mitigate some of the impact.
- The portfolio’s office allocation within non-agency CMBS detracted from relative performance, offsetting strong performance for the portfolio in other areas of the CMBS market.
- The portfolio’s lack of exposure to agency CMBS detracted from relative performance as the benchmark allocation delivered strong performance during Q4.

Period and Annualized Total Returns (%)	Since Inception (30 Jun 2025)	4Q25	Expense Ratio (%)
Class I (DHWIX)	5.03	1.07	0.87
Bloomberg US Securitized: MBS, ABS and CMBS Index	4.10	1.68	—

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Performance assumes reinvestment of all distributions. Returns for periods less than one year are not annualized.

Fund holdings subject to change without notice.

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Analytics provided by The Yield Book® Software.

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