Short Duration Securitized Bond Fund

DIAMOND HILL
INVESTED IN THE LONG RUN

As of 31 Dec 2025

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Market review and outlook

The Bloomberg US 1-3 Year Government/Credit Index returned 1.16% during Q4, bringing year-to-date performance for the index to 5.35%. 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 with 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

As the Fed continued the rate-easing cycle that began in mid-September, the two-year Treasury yield declined 13.5 bps in Q4. That modest move, despite 75 bps of policy easing, suggests the market had already priced in the cuts. While the front end edged lower, the 30-year Treasury yield rose 11.3 bps in Q4, extending the yield-curve steepening that characterized much of 2025.

Corporate

The investment grade corporate market, as measured by the Bloomberg US Corporate 1–3 Year Bond Index, delivered its weakest quarterly return (+1.23%) since Q4 2024 (+0.19%). Spreads widened modestly in Q4, rising 4.6 bps from 46.3 bps to 50.9 bps, but remain historically low for the short end of the investment grade market. Since the index's inception in December 2003, the average spread has been 104.5 bps — roughly double the year-end level.

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. 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 non-benchmark allocations in both non-agency residential mortgage-backed securities (RMBS) and non-agency commercial mortgage-backed securities (CMBS) outpaced the overall benchmark.
- Within ABS, credit card and consumer unsecured continued to deliver strong performance as the consumer remains resilient in the face of stubborn inflation.
- Agency RMBS generated strong performance relative to both the corporate and Treasury allocation within the benchmark.

Key detractors

- The shorter end of the Treasury curve benefitted from the ongoing shift lower in yields and the benchmark's allocation (nearly 75%) drove returns in Q4.
- Despite strong security selection within the portfolio's limited corporate exposure, the benchmark's sizable overweight to corporates detracted from relative performance.
- The portfolio's exposure to subprime auto ABS detracted from performance, as the market continued to deal with the fallout from the Tricolor bankruptcy in Q3.

2025 performance review

Key contributors

- Non-agency RMBS and non-agency CMBS were strong performers, as continued spread tightening and sustained investor demand supported these sectors.
- Shorter-duration ABS was the weakest-performing segment of the securitized market, but the portfolio's allocation still outpaced the benchmark.
- Agency collateralized mortgage obligations (CMOs) and passthrough mortgages allocations in the portfolio outpaced the benchmark in 2025.

Key detractors

- The portfolio's Treasury allocation trailed the benchmark, and this was exacerbated by the significant underweight posture.
- While the portfolio's corporate allocation's performance was consistent with the benchmark during the year, the lower weighting resulted in a negative impact on relative performance.
- The portfolio does not invest in the non-corporate credit market, and the sector saw strong performance in 2025, detracting from relative performance.

Period and Annualized Total Returns (%)	Since Inception (5 Jul 2016)	5Y	3Y	1Y	YTD	4Q25	Expense Ratio (%)
Class I (DHEIX)	4.25	4.73	8.27	6.60	6.60	0.92	0.53
Bloomberg US 1-3 Yr. Gov./Credit Index	2.02	1.97	4.77	5.35	5.35	1.16	—

Must be preceded or accompanied by a prospectus. **30-day SEC Yield** represents net investment income earned by the fund over the previous 30-day period, expressed as an annual percentage rate based on the Fund's share price at the end of the 30-day period. The 30-day SEC Yield for the Short Duration Securitized Bond Fund (Cl I) is 6.08%.

Risk disclosure: In general, when interest rates rise, fixed income values fall. Lower quality/high yield securities involve greater default risk or price changes than bonds with higher credit ratings. Mortgage- and asset-backed securities are influenced by factors affecting the housing market and the assets underlying such securities. The securities may decline in value, face valuation difficulties and become more volatile and/or illiquid. They are also subject to prepayment risk, which occurs when mortgage holders refinance or repay loans sooner than expected, creating an early return of principal to loan holders.

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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. For current to most recent month-end performance, visit diamond-hill.com.

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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