

Mark Jackson, CFA
Portfolio Manager

Henry Song, CFA
Portfolio Manager

Douglas Gimple
Senior Portfolio Specialist

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.

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 in non-agency residential mortgage-backed securities (RMBS) contributed to relative performance as the sector outpaced the overall benchmark return (the benchmark does not include non-agency RMBS).
- 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 portfolio's ABS allocation, consumer unsecured and credit card sectors outpaced the benchmark's ABS allocation as well as the overall benchmark.

Key detractors

- The combination of an underweight position, as well as longer duration posture relative to the benchmark in Treasuries, detracted from performance during the quarter, as longer rates moved higher while shorter rates contracted.
- The corporate allocation within the portfolio outperformed the benchmark allocation, but the advantage was negated by the portfolio's underweight position.
- 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

- Non-agency RMBS and non-agency CMBS saw strong performance relative to benchmark performance.
- 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 supported relative performance, with average exposure of 61.3% vs 26.5% for the benchmark – more than a two-to-one difference – as these sectors led the market.

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.
- Despite strong security selection in the corporate sector, the portfolio's underweight relative to the benchmark detracted from performance.

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

Period and Annualized Total Returns (%)	Since Inception (31 Jul 2016)	5Y	3Y	1Y	YTD	4Q25
Gross of Fees	2.76	1.07	6.20	7.70	7.70	0.97
Net of Fees	2.46	0.77	5.89	7.38	7.38	0.90
Bloomberg US Aggregate Bond Index	1.51	-0.36	4.66	7.30	7.30	1.10

Calendar Year Returns (%)	31 Jul 2016 - 31 Dec 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross of Fees	-2.44	4.64	2.06	8.56	8.34	-0.55	-11.47	7.06	3.88	7.70
Net of Fees	-2.56	4.33	1.77	8.24	8.03	-0.84	-11.73	6.75	3.58	7.38
Bloomberg US Aggregate Bond Index	-3.14	3.54	0.01	8.72	7.51	-1.54	-13.01	5.53	1.25	7.30

Diamond Hill Capital Management, Inc. (DHCM) is an investment adviser registered with the Securities and Exchange Commission and a wholly owned subsidiary of Diamond Hill Investment Group, Inc.; registration does not imply a certain level of skill or training. DHCM provides investment management services to individuals and institutions through mutual funds, separately managed accounts, collective investment trusts, a private fund, a closed-end interval fund and other pooled vehicles including subadvised funds and model delivery programs. Policies for valuing investments, calculating performance and preparing GIPS reports, as well as a complete list and description of all composites, are available upon request. To receive a complete list and description of all Diamond Hill composites and/or a GIPS® report, contact Scott Stapleton at 614.255.3329, sstapleton@diamond-hill.com or 325 John H. McConnell Blvd., Suite 200, Columbus, OH 43215. A list of broad distribution pooled funds is available upon request. In addition, a list of limited distribution pooled fund descriptions is available upon request. The Core Bond Composite is comprised of discretionary, fee-paying, non-wrap accounts managed according to the firm's Core Bond fixed income strategy. The strategy's investment objective is to maximize total return consistent with the preservation of capital. The strategy typically invests in a diversified portfolio of investment grade, intermediate and long-term fixed income securities, including bonds, debt securities and other similar US dollar-denominated instruments issued by various US public- or private-sector entities, by non-US corporations or US affiliates of non-US corporations or by non-US governments or their agencies and instrumentalities. The strategy may invest a significant portion or all of its assets in asset-backed, mortgage-related and mortgage-backed securities at the discretion of Diamond Hill Capital Management, Inc. (the "Adviser"). The portfolio will typically maintain an average portfolio duration within 20% of the Bloomberg US Aggregate Bond Index. As of 30 September 2024, there is no minimum account size. Prior to this date, the minimum account size was \$50 million. The composite results reflect the reinvestment of dividends, capital gains and other earnings when appropriate. Composite returns and benchmark returns are presented gross of withholding taxes on dividends, interest income and capital gains. Returns are calculated using US Dollars. Net returns are calculated by reducing the gross returns by the highest stated fee in the composite fee schedule. Only transaction costs are deducted from gross of fees returns. Prior to 30 September 2022, actual fees were used in calculating net returns. All net returns were changed retroactively to reflect the highest fee in the composite fee schedule. The Bloomberg US Aggregate Bond Index is the benchmark. The index measures the performance of investment grade, fixed-rate taxable bond market and includes government and corporate bonds, agency mortgage-backed, asset-backed and commercial mortgage-backed securities (agency and non-agency). The index is unmanaged, includes net reinvested dividends, does not reflect fees or expenses (which would lower the return) and is not available for direct investment. Index data source: Bloomberg Index Services Limited. See diamond-hill.com/disclosures for a full copy of the disclaimer. **The performance data quoted represents past performance; past performance does not guarantee future results.** GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Analytics provided by The Yield Book® Software.

The views expressed are those of Diamond Hill as of 31 December 2025 and are subject to change without notice. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice. Investing involves risk, including the possible loss of principal.