

Core Bond Strategy

As of 30 Jun 2026

DIAMOND HILL
A First Eagle Investments Company

Mark Jackson, CFA
Portfolio Manager

Henry Song, CFA
Portfolio Manager

Douglas Gimple
Client Portfolio Manager

Market review and outlook

The Bloomberg US Aggregate Bond Index returned 0.67% in 2Q26, as markets recovered from the initial uncertainty and volatility brought about by the conflict in the Middle East. The index spent the past three months recovering from a challenging end to 1Q26 and a devastating month of March (-1.76%), which was the worst single month of performance since October 2024. The largest quarterly jump in the price of Brent crude since the Gulf War in 1990 was followed by the biggest quarterly decline since the pandemic began in early 2020. Volatility in energy markets was indicative of overall volatility in financial markets, with fears of an expanding conflict ebbing and flowing with each bit of news out of the Middle East.

From an economic standpoint, upbeat news helped to dampen some of the concerns around the geopolitical situation as the third estimate of 1Q26 GDP increased by 2.1%. The labor market continued to rebound from the slow start to the year, adding an average of 155,000 jobs from March to May. With the May report reflecting 172,000 jobs added and unemployment holding at 4.3%, the outlook is looking up for the labor market. The quarter witnessed a transfer of leadership at the Federal Reserve from Jerome Powell to Kevin Warsh, and Warsh made quite the impression at his first meeting, delivering a more hawkish tone than some expected. Warsh was clear that forward guidance is going to be limited, if not outright eliminated, and hinted the Dot Plot could face a similar fate. In a symbolic gesture, the new chair did not submit a dot and referenced that all submissions were made in pencil, alluding to the fact that they could change at any time. The shift from dovish to hawkish is in full gear, with half of participants signaling a rate hike by year-end and six members targeting two rate hikes by year-end. In other Federal Reserve news, the Supreme Court prevented the administration from terminating Lisa Cook (for now), and her challenge will play out in the lower courts.

Updates by sector

Treasury

The Treasury yield curve flattened in 2Q26 as the potential end to the conflict between the US and Iran gained momentum and a more hawkish Fed shifted market expectations for the future path of interest rates. The 2-year Treasury yield climbed 37.9 basis points, with the 3-year and 5-year yields increasing by 36.6 and

28.4 basis points, respectively. The longer end of the curve moved higher but to a much lesser degree, with the 10-year climbing by 14.9 basis points and the 30-year higher by 4.1 basis points during the quarter. The Bloomberg US Treasury Index returned 0.32% during the quarter, a solid rebound from 1Q26's loss of 0.04%. Market expectations for action from the Federal Reserve began the quarter with roughly 7.3 basis points of rate cuts expected by year-end before dramatically shifting to 37.7 basis points in rate increases by the end of the year, reflecting the potential impact of conflict-inspired inflation and a more hawkish Federal Reserve.

Corporate

The investment grade corporate market, as tracked by the Bloomberg US Corporate Bond Index, rebounded from a negative first quarter (-0.54%) with a strong return of 1.40% in the second quarter. Investment grade corporate spread levels peaked at the beginning of the quarter at 88.6 basis points and steadily tightened through to the end of June (74.2 basis points), finishing the first half of the year below where they began the year (77.5 basis points). Issuance in the investment grade corporate sector reached \$552 billion and combined with the first quarter's issuance of \$640 billion pushed past the prior record for the first six months of the year (2020) and is on pace for a record calendar year. Despite record issuance levels, spreads in the investment grade corporate market continued to grind tighter, an indication of investors' appetite for yield.

Securitized

The securitized sector, as tracked by the Bloomberg US Securitized: MBS, ABS and CMBS Index, delivered positive returns in 2Q26, generating a return of 0.58%. Benchmark-eligible agency passthroughs returned 0.58%, in line with the overall sector, while collateralized mortgage obligations (CMOs), as measured by the ICE BofA CMO Index, outpaced plain vanilla passthroughs (0.67%). With ongoing volatility in the rates market, interest-rate-sensitive agency residential mortgage-backed securities (RMBS) trailed other segments of the securitized market including asset-backed securities (ABS) and commercial/residential non-agency mortgage-backed securities (CMBS/RMBS). Despite ABS issuance being on a record pace for 2026 and non-agency CMBS/RMBS outpacing prior years' issuance levels, new issues in the securitized market were still met with significant investor appetite as the search for yield continues.

Q2 performance review

Key contributors

- The portfolio's allocation to agency CMOs contributed to performance on an absolute and relative basis compared to the benchmark, as these securities held up better during volatile periods in the rates market.
- Security selection within non-agency RMBS contributed to relative performance with strength in home equity conversion mortgages (HECM) or reverse mortgages and second lien securities.
- Within the ABS sector, prime and near prime unsecured consumer ABS contributed to performance in combination with a rebound in the portfolio's solar allocation.

Key detractors

- The portfolio's allocation to investment grade corporate debt trailed the benchmark's relative position, and the impact was exacerbated by a significant underweight.
- Despite stronger performance from the portfolio's Treasury allocation due to a longer duration posture relative to the benchmark, the sector underweight position offset the contribution.
- The portfolio's allocation to agency RMBS passthroughs outpaced the benchmark allocation, but the difference in weighting resulted in a slight detractor from performance during the quarter.

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	2Q26
Gross of Fees	2.75	1.49	5.62	4.45	1.29	0.84
Net of Fees	2.45	1.19	5.31	4.13	1.14	0.77
Bloomberg US Aggregate Bond Index	1.49	0.08	4.16	3.79	0.62	0.67

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, LLC (DHCM) is an investment adviser registered with the Securities and Exchange Commission and a wholly owned subsidiary of Diamond Hill Investment Group, LLC; 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 Patrick Trencansky at 614.641.2734, ptrencansky@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, LLC (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 30 June 2026 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.