

Securitized Total Return Strategy

DIAMOND HILL
A First Eagle Investments Company

As of 31 Mar 2026

Henry Song, CFA
Portfolio Manager

Douglas Gimple
Senior Portfolio Specialist

Market review and outlook

The Bloomberg US Securitized Bond Index returned 0.40% during Q1 2026, the only major sector to deliver positive returns during a tumultuous time in the market. Through the first two months of the year, the index returned 2.05% as economic data remained broadly resilient despite concerns around the February sell-off in software stocks, a key tariff decision by the Supreme Court and the growing drumbeat of war in the Middle East. The US and Israel launched combat operations against Iran on February 28, and the markets spent most of March reeling from the ongoing conflict, resulting in Brent crude oil experiencing its biggest quarterly increase since the Gulf War in 1990. While one normally thinks of a flight-to-quality trade as a rally in Treasury yields as investors move away from risk assets to safer alternatives, this was not the case in March as rates pushed higher across the curve. The Fed held rates steady at the March 18 meeting and avoided any kind of hints about the future path of rates. Despite concerns around the impact of higher energy prices on inflation due to the conflict, no participants viewed a 2026 hike as appropriate at this time. At his press conference, Chairman Jerome Powell alleviated some concern around the leadership of the Federal Reserve, stating that he would remain as chair pro tempore until his replacement is confirmed.

Updates by sector

Securitized

Spreads across risk assets spent the early part of the quarter following the pattern from 2025, grinding tighter as investors continued to search for yield and opportunity. That trend reversed as the conflict in the Middle East began and continued through the final month of the quarter.

- Asset-backed securities (ABS) – Prior to the market upheaval in March, the biggest impact to the ABS market was the Trump administration’s proposal for a 10% cap on credit card interest rates, which pushed spreads in this subsector higher and shut down issuance. After the initial reaction, spreads settled down and resumed the tightening trajectory,

mimicking other areas of the market like auto ABS. March saw spreads push slightly higher across the ABS market, finishing the quarter in line with the beginning of the year. Shorter-duration, benchmark-eligible ABS generated a 0.31% return in Q1, while the ABS allocation of the strategy returned 1.34%.

- Non-agency commercial mortgage-backed securities (CMBS) – Similar to other spread (non-Treasury) sectors, non-agency CMBS spreads tightened during the first two months of the year before reversing course in March, and spread levels for benchmark-eligible CMBS finished at nearly the same level at which they began the year. Spread levels for benchmark-eligible non-agency CMBS (Bloomberg Non-Agency CMBS Index) compressed from 121 basis points (bps) at the start of the quarter to as low as 110.7 bps by early February before ending the quarter at 119.1 bps. The sector returned 0.31% during the quarter, and the strategy’s allocation returned 0.94%.
- Agency residential mortgage-backed securities (RMBS) – Spread levels in the agency RMBS space began the quarter at 21.8 bps and reached as low as 13.8 bps on the news that the Trump administration had ordered the government-sponsored entities (GSEs) to purchase \$200 billion in agency mortgages. But, as with other sectors, spreads widened in March, finishing the quarter higher than where they began, at 23.9 bps. Agency RMBS (as measured by the Bloomberg U.S. MBS Index) returned 0.40% during Q1 and the strategy’s allocation returned 0.01%, though the non-agency RMBS allocation returned 1.12%.

Q1 performance review

The Diamond Hill Securitized Total Return Strategy returned 0.29% during Q1 trailing the Bloomberg US Securitized: MBS, ABS and CMBS Index by 11 bps.

Key contributors

- The ABS allocation, though shorter in duration, contributed to relative performance with consumer-related segments such as auto, credit card and consumer unsecured leading the way.
- Non-agency RMBS, excluded from the benchmark, generated strong returns ahead of the overall benchmark, fueled by reverse mortgages and residential transition loans.
- Despite the negative performance from the laboratory allocation in CMBS, the sector contributed to relative returns significantly, with office and hospitality leading the way.

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.
- The strategy's allocation to agency collateralized mortgage obligations, which carry a longer duration relative to benchmark passthrough mortgages, detracted from performance as rates moved higher across the board.
- The laboratory allocation within non-agency CMBS, though small, detracted from relative performance as this sector was negative during the quarter.

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

Period and Annualized Total Returns (%)	Since Inception (30 Nov 2025)	YTD	1Q26
Gross of Fees	0.36	0.46	0.46
Net of Fees	0.12	0.29	0.29
Bloomberg US Securitized: MBS, ABS and CMBS Index	0.61	0.40	0.40

Calendar Year Returns (%)	30 Nov 2025 - 31 Dec 2025
Gross of Fees	-0.10
Net of Fees	-0.16
Bloomberg US Securitized: MBS, ABS and CMBS Index	0.21

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 Securitized Total Return Composite is comprised of discretionary, fee-paying, non-wrap accounts managed according to the firm's Securitized Total Return 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 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 portfolio 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 may invest up to 15% of its assets in below-investment-grade securities at the time of purchase and will typically maintain an average portfolio duration within 2 of the Bloomberg US Securitized: MBS, ABS and CMBS Index. 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. The Bloomberg US Securitized: MBS, ABS and CMBS Index is the benchmark. The index measures the performance of all USD-denominated, investment grade, securitized issues within the Bloomberg US Aggregate Bond Index. 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 March 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.