Securitized Total Return Strategy

As of 30 Jun 2026

DIAMOND HILL
A First Eagle Investments Company

Henry Song, CFA
Portfolio Manager

Douglas Gimple
Client Portfolio Manager

Market review and outlook

The Bloomberg US Securitized: MBS, ABS and CMBS Index returned 0.58% during the second quarter of 2026, building on the first quarter return of 0.40% and bringing the year-to-date return to 0.98%. The second quarter saw 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

Securitized

Spreads across risk assets reversed most of the movement from late in the first quarter, which witnessed spreads peak at their 2026 high levels with the start of the conflict in the Middle East. During the second quarter, spread levels in the securitized market, for the most part, followed the same pattern by grinding tighter, ending the month of June lower than where they began the year. The one exception was the agency residential mortgage-backed securities (RMBS) sector, which finished the second quarter 0.5 basis points higher than the previous quarter end and 2.6 basis points higher than the start of the year.

- Asset-backed securities (ABS)—As the concerns about potential limits on credit card interest rates continued to fade, the sector rebounded both from a performance standpoint and issuance standpoint. Despite ongoing concerns about the economic environment and pressure on the consumer, consumer-related securities including unsecured consumer, credit card and auto ABS continued to perform well during the quarter. Other areas of the ABS market also saw strong performance in 2Q26, including small business and equipment. Shorter duration, benchmark eligible ABS generated a 0.75% return during the quarter, while the ABS allocation of the portfolio returned 1.33%.

- Non-agency commercial mortgage-backed securities (CMBS)—Similar to other spread (non-Treasury) sectors, non-agency CMBS spreads reversed course from the spread widening that occurred in late 1Q26. Spread levels for benchmark-eligible CMBS ended the second quarter near year-to-date tights and well below beginning of the year levels. Spread levels for benchmark eligible non-agency CMBS (Bloomberg Non-Agency CMBS Index) compressed from 118.5 basis points at the start of the quarter to as low as 105.9 basis points in early June before ending the quarter at 109.3 basis points. The sector returned 0.67% during the quarter and the portfolio's allocation returned 1.03%.

- Agency RMBS—Spread levels in the sector began the quarter at 23.9 basis points and, unlike other securitized sectors, remained relatively stable for most of the quarter before finishing slightly higher at 24.4 basis points as rates fluctuated in response to news coming out of the Middle East. Agency RMBS (as measured by the Bloomberg US MBS Index) returned 0.58% during 2Q26 while the portfolio's allocation returned 0.62%. The portfolio's non-agency RMBS allocation, a sector not represented in the benchmark, returned 1.65% during the quarter.

Q2 performance review

The Diamond Hill Securitized Total Return Strategy returned 0.91% during the second quarter, outpacing the Bloomberg US Securitized: MBS, ABS and CMBS Index by 33 basis points.

Key contributors

- The portfolio's ABS allocation, though shorter in duration compared to the benchmark, contributed to relative performance with consumer-related segments—including auto, equipment and consumer unsecured—leading the way.
- Non-agency RMBS, excluded from the benchmark, generated the strongest returns for the portfolio given ongoing strength in reverse mortgages and second liens along with the growth and resilience in home equity products.
- Despite slightly negative performance from the office allocation in non-agency CMBS, the portfolio's allocation to the sector contributed to relative returns with commercial real estate, collateralized loan obligations and multifamily leading the way.

Key detractors

- With the benchmark overwhelmingly allocated to agency RMBS (nearly 93% of the overall allocation), strong relative performance in the portfolio's allocation was negated by the significant underweight to the sector.
- Agency RMBS collateralized mortgage obligation derivatives in the portfolio, such as inverse floaters and inverse interest-only securities, detracted from performance as these securities carry a much longer duration and felt the impact of rate volatility during the quarter.
- The laboratory/life sciences allocation within non-agency CMBS, which refers to deals that are collateralized by real estate heavily tailored to the biotech, pharma, and health care research sectors, detracted from relative performance as the sector was positive during the quarter but trailed the other major sectors.

Period and Annualized Total Returns (%)	Since Inception (30 Nov 2025)	YTD	2Q26
Gross of Fees	1.27	1.37	0.91
Net of Fees	0.86	1.02	0.73
Bloomberg US Securitized: MBS, ABS and CMBS Index	1.19	0.98	0.58

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 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.