

Securitized Total Return Strategy

DIAMOND HILL
A First Eagle Investments Company

As of 30 Sep 2026

Henry Song, CFA
Portfolio Manager

Douglas Gimple
Client Portfolio Manager

Market review and outlook

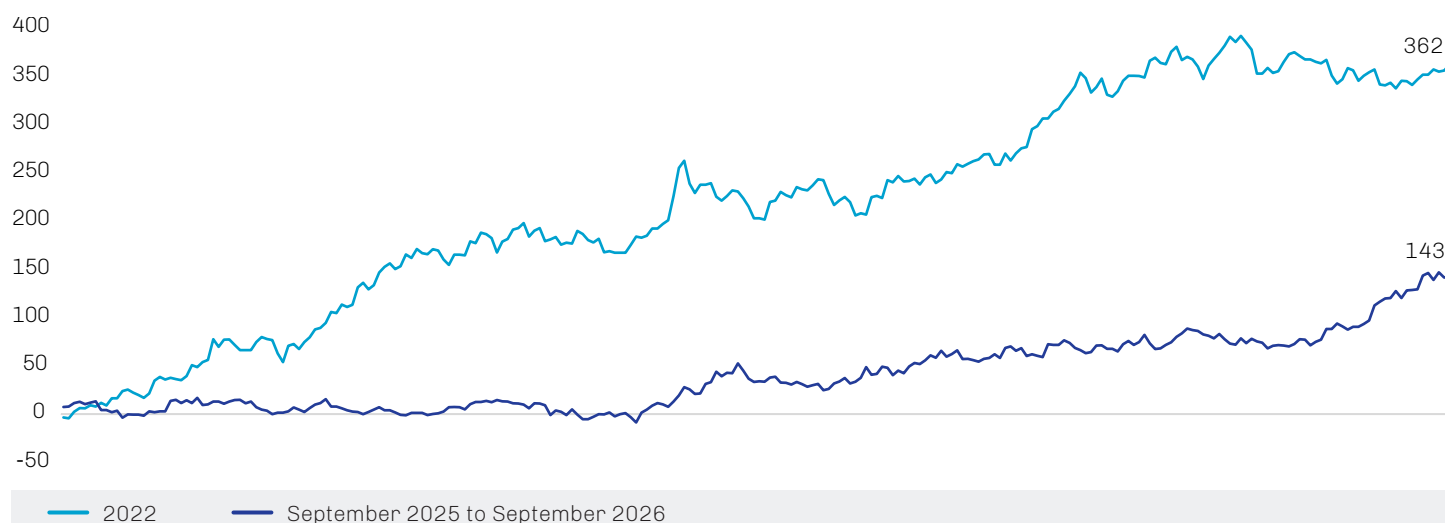
The Securitized Total Return Strategy declined -3.08% (net of fees) in 3Q26 and -2.22% since the beginning of the year. The portfolio's allocations are spread across asset-backed securities (ABS), non-agency commercial mortgage-backed securities (CMBS), non-agency residential mortgage-backed securities (RMBS) and agency RMBS. As of the quarter end, the portfolio held 10.8% in ABS, 6.0% in non-agency CMBS, 24.7% in non-agency RMBS and 55.7% in agency RMBS and 2.8% in cash, with a yield to worst of 6.81% and a duration of 5.64.

Central banks globally adopted a more hawkish stance during the quarter, with the Federal Reserve, European Central Bank and Bank of Japan all raising policy rates. For the Federal Reserve, the move represented its first rate hike since 2023, while the September Summary of Economic Projections indicated the potential for another increase by year-end. The Fed's decision reflected continued strength in the US economy, including a five-year high in the composite Purchasing Managers' Index and renewed strength in the labor market.

Meanwhile, inflation remains well above the Fed's 2% target, with the ongoing conflict in the Middle East and constraints on the Strait of Hormuz adding to inflationary pressures. The combination of tighter monetary policy and elevated inflation expectations pushed Treasury yields sharply higher across the curve, weighing on fixed income returns. Although the decline may revive memories of 2022—when the Bloomberg US Aggregate Bond Index posted its worst calendar-year return on record at -13.01%—today's fixed-income market entered the period of rising rates from a considerably stronger starting point. The key difference is income. At the beginning of 2022, the Bloomberg US Aggregate Bond Index had a yield to worst of just 1.75%, well below its 6.17% average since the index's inception in 1976. With relatively little income available to cushion price declines, the rapid rise in interest rates translated into substantial losses. By comparison, the index had a yield to worst of 4.37% one year ago. That higher starting income has helped offset some of the price pressure created by rising rates in 2026. Additionally, the pace and magnitude of the increase in rates have also been more measured than during the 2022–2023 tightening cycle.

Exhibit 1. Cumulative Increase in Yield for 2-Year Treasury

Over One-Year Period, in Basis Points



Source: Bloomberg; data as of September 30, 2026.

Updates by sector

Securitized

The securitized sector was extremely pressured during the quarter, declining 4.06% as interest-rate sensitive residential mortgage-backed securities (RMBS) delivered the worst performance of all major sectors, down 4.25%. Collateralized mortgage obligations (CMOs), as measured by the ICE BofA US CMO Index, limited some of the damage in the mortgage sector, declining 3.27%. Shorter duration areas of the securitized market such as asset-backed securities (ABS) fared better, down only 0.79% and generating 0.14% in excess returns relative to comparable duration Treasuries. Index eligible non-agency commercial mortgage-backed securities (CMBS) held up better than RMBS, declining 1.37% during the quarter and generating 0.14% in excess return relative to comparable-duration Treasuries. New issues in the securitized market were met with significant investor appetite as the search for yield continues, despite ABS issuance maintaining a record pace and non-agency CMBS/RMBS outpacing prior years' issuance levels.

- Asset-backed securities—Despite inflation weighing on the economy amid ongoing uncertainty in the Middle East, consumer-related securities held up well during the quarter. Using allocations in the Bloomberg US Securitized Bond Index as a proxy for the ABS market, consumer-related ABS including auto loans (+0.11%) and credit cards (-0.60%) held up better than that majority of the market.

Other areas of the ABS market that are not eligible for index inclusion performed well during the quarter, including consumer unsecured and home improvement. Shorter duration, benchmark-eligible ABS declined 0.77% in 3Q26 while the ABS allocation of the portfolio returned 0.60%.

- Non-agency commercial mortgage-backed securities—As with any sectors that have duration, the third quarter was painful as rates continued to climb, accelerating in late September. Spread levels for benchmark-eligible agency CMBS widened slightly during the quarter, climbing from 25.5 basis points to 29.3 basis points. Spread levels for benchmark-eligible non-agency CMBS (as measured by the Bloomberg Non-Agency CMBS Index) compressed from 109.3 basis points at the start of the quarter to as low as 104.5 basis points in late September before ending the quarter at 109.3 bps. The non-agency CMBS sector lost 1.37% during the quarter and the portfolio's allocation was down 0.48%.
- Agency residential mortgage-backed securities—Spread levels began the quarter at 24.4 basis points in the sector and spent the majority of the quarter climbing higher as Treasury yields pushed higher across the curve, bringing quarter-end spread levels to 43.1 basis points, and the quarter-end level was close

to the highest level reached throughout 2026 (44.6 basis points on September 28). The agency RMBS sector (as measured by the Bloomberg US MBS Index) declined 4.25% during 3Q26 and the portfolio's allocation was down 5.09% and accounts for roughly 54% of the overall portfolio. The non-agency RMBS allocation, a sector not represented in the benchmark, returned 0.26%.

Q3 performance review

The Diamond Hill Securitized Total Return Strategy declined 3.08% (net of fees) during the third quarter, while the benchmark declined 4.06%.

Key contributors

- Within the portfolio's ABS allocation, home improvement delivered the strongest return during the quarter, followed by credit card and consumer unsecured.
- Non-agency RMBS, a sector excluded from the benchmark, generated positive returns during the quarter, fueled by strength in both the residential transition loan and second lien sectors.
- Though the non-agency CMBS allocation in the portfolio was slightly negative during the quarter, it outpaced both the benchmark-eligible allocation and overall portfolio performance, contributing relative performance on the strength of commercial real estate collateralized loan obligations (CRE CLO) and hospitality, offsetting the drag from life sciences/laboratory.

Key detractors

- The portfolio allocation to agency RMBS was down substantially during the quarter as rate volatility hit this sector particularly hard, though the relative underweight to the benchmark allocation mitigated the impact.
- The strategy's minimal allocation to credit-linked notes was down during the quarter and detracted from performance.
- The laboratory/life sciences allocation within non-agency CMBS detracted from relative performance as this sector trailed the other major sectors of the overall portfolio. Laboratory/life sciences CMBS refers to deals collateralized by real estate heavily tailored to the biotech, pharma and health care research sectors. These properties feature highly specialized infrastructure like wet labs, heavy power supply and advanced HVAC systems, and are usually backed by large, investment-grade tenants.

Period and Annualized Total Returns (%)	Since Inception (30 Nov 2025)	YTD	3Q26
Gross of Fees	-1.68	-1.58	-2.91
Net of Fees	-2.25	-2.10	-3.08
Bloomberg US Securitized: MBS, ABS and CMBS Index	-2.92	-3.12	-4.06

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 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 September 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.