

# DIAMOND HILL

INVESTED IN THE LONG RUN

## Securitized Credit Fund

As of 30 Sep 2025

The Bloomberg US Aggregate Bond Index returned 2.03% during Q3 of 2025, bringing year-to-date performance for the Index to 6.13%. 2025 year-to-date performance represents the best nine-month start to a calendar year since 2020's 6.79%. Q3 brought a mix of market-moving developments: the long-delayed tariffs were implemented on August 7; the labor market showed signs of weakness and a dovish shift from the Federal Reserve at Jackson Hole coincided with growing concerns over a potential government shutdown. As in Q2, risk assets have continued to shrug off economic and political headwinds, with investor demand keeping spreads near historically tight levels. Overall, Q3 reflected a market increasingly focused on central bank policy, with credit markets showing resilience despite mounting macroeconomic uncertainty.

### Team

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### Shifts at the Federal Reserve

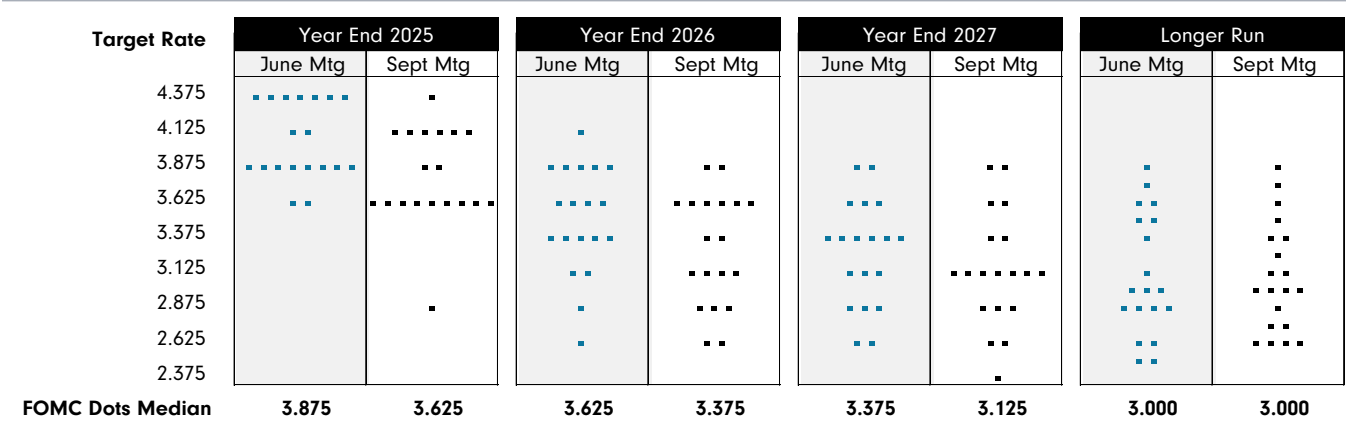
After an unexplained absence at the July 30 and 31 meeting of the FOMC, former Federal Reserve Governor Adriana Kugler submitted her resignation from the board on August 1. Kugler was nominated and confirmed to the Fed board in 2023, and she was set to serve the remainder of Lael Brainard's 14-year term, expiring in January 2026. While no explanation was offered from Kugler regarding the reasoning for her departure just months ahead of her term expiring, the vacancy paved the way for President Trump to fill another position on the influential board. Stephen Miran, who is currently the chair of Trump's Council of Economic Advisors (CEA), was nominated for the position and confirmed in the days leading up to the September FOMC meeting. Miran distinguished himself at his first meeting by being the only member to advocate for a rate cut of 50 basis points (bps).

Kugler's departure four months before the expiration of her term was a bit of a surprise, as she offered no forewarning. An even bigger surprise was the President's attempt to terminate Lisa Cook, who was nominated by President Joe Biden in 2022 and confirmed in 2023 to serve a 14-year term as a member of the Federal Reserve Board of Governors. President Trump announced his intention to fire Governor Cook on August 25, citing allegations that she committed mortgage fraud. Bill Pulte, the director of the Federal Housing Finance Agency, alleges that Cook claimed two primary residences in 2021 to obtain better terms on both mortgages, as mortgage rates on second homes and investment properties are often higher than those for primary residences. The Federal Reserve Act states that governors can only be removed "for cause," meaning malfeasance, neglect of duty or inefficiency. Establishing a for-cause removal typically requires a proceeding that would allow Cook, according to legal experts, to answer the charges and present evidence, which hasn't happened in this case. On September 9, a federal judge blocked Cook's removal from the Federal Reserve Board, allowing her lawsuit to proceed and for her to remain as Fed governor until her lawsuit is heard, and she was able to attend the September FOMC meeting. The case now moves before the Supreme Court, which will decide whether the President was within his power to terminate a member of the Federal Reserve. The outcome of this case will have far-reaching implications — not just for the Federal Reserve's leadership, but for the foundational belief in its independence from political influence.

The Next Easing Cycle Begins

Despite the shifts in the composition of the Federal Reserve and the ongoing uncertainty around Lisa Cook’s term, the FOMC moved forward with the first adjustment to Fed Funds since December 2024. The decision to ease reflected a “shift in the balance of risks,” with the Committee believing that the “downside risks to employment have risen.” Inflation has ticked up since the spring – a trend acknowledged in the post-meeting statement. At the same time, job growth has slowed sharply, and the unemployment rate has reached the upper end of the Committee’s central range consistent with full employment. Powell’s post-meeting press conference was mildly hawkish and signaled that there was no rush to get rates back to neutral. Powell characterized the adjustment as a “risk management cut” and expectations are for a “meeting-by-meeting” approach. The Committee’s ongoing bias to ease was more apparent in the September Summary of Economic Projections (SEP), with the median projection for the Fed Funds rate at year end slipping to 3.625% from 3.875% in the June SEP, implying most officials see an additional 50 bps of easing over the Committee’s two remaining meetings of 2025. The median estimation for 2026 signaled just one cut, but this masks a decent amount of dispersion across the participants. Just two of the 19 participants were at the median (3.375%), and the median was just one dot away from slipping another 25 bps to 3.125%. Notably, the median estimate for the longer-run, “neutral” Fed Funds rate was unchanged at 3%. This underscores how most Committee members still view the policy setting as at least somewhat restrictive, giving some scope to lower the Fed Funds rate to cushion the labor market without outright accommodative monetary policy stoking higher inflation.

Exhibit 1



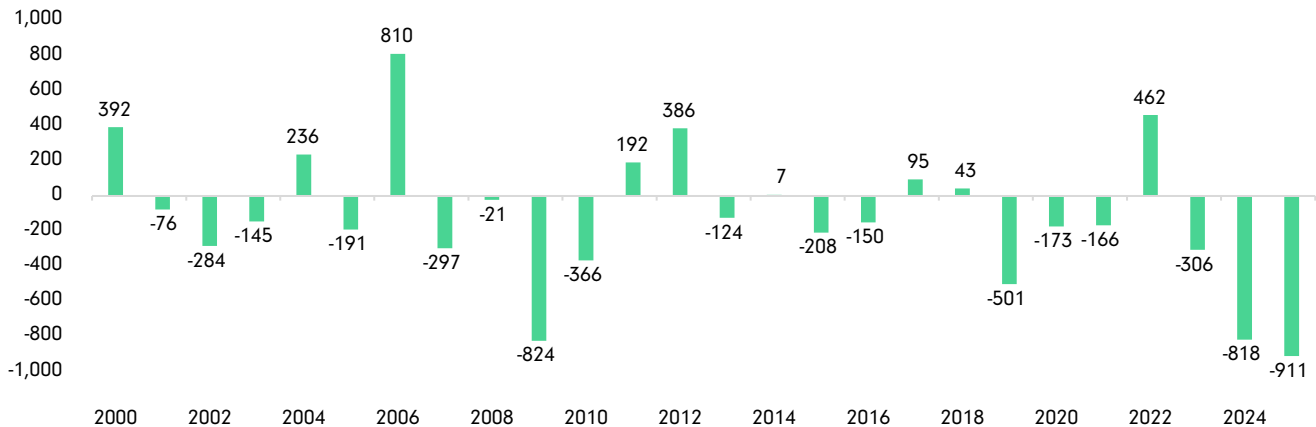
Source: Federal Reserve.

Looking back, there are similarities between this year’s actions and those taken in 2024. In September 2024, the Fed initiated easing with a 50 bps cut, compared to the 25 bps reduction in September 2025. However, the FOMC emerged from that meeting with what appears to be a replication of the actions taken in November and December 2024 – a reduction of 25 bps at both meetings. This year is slightly different as the next meeting is in October, but for now, the future path of rates based on the Fed SEP is another 50 bps lower over the next two meetings. Exhibit 1 illustrates the shift in expectations from the various members of the Federal Reserve for the remainder of 2025 as well as 2026, 2027 and longer-term. This shift, 25 bps lower across the near- and medium-term forecasts, reinforces the Committee’s cautious approach to easing while maintaining a steady long-run view of neutral policy at 3%.

NFP Revisions, Labor Market Weakening and an Inflation Update

Recent reports of a resilient labor market may have overstated the underlying strength. According to the Bureau of Labor Statistics’ preliminary benchmark revision to March 2025 non-farm payrolls, total employment was 911,000 lower than previously reported. This revision implies an average monthly job loss of 76,000 – a sharp contrast to previous estimates of growth. Collectively, the data suggests the recent slowdown follows a longer period of modest expansion, potentially justifying a more aggressive Fed easing cycle. It’s worth noting that this is a preliminary estimate; the final benchmark revision will be published in February 2026. In 2024, the benchmark revision to March reporting was a reduction of 818,000 jobs, the record until this most recent report. Notably, 2024’s 818,000 job loss estimate was later revised to a loss of 598,000 jobs.

Exhibit 2 – Preliminary Payroll Benchmark Revisions (thousands)

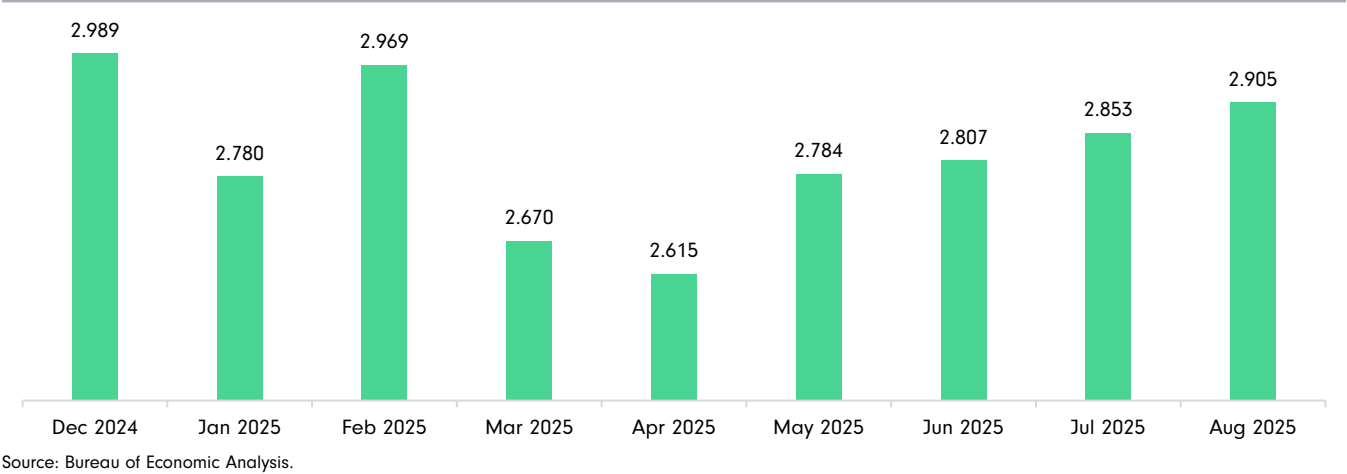


Source: Bureau of Labor Statistics.

In addition to the benchmark revision, broader labor market indicators paint a picture of sustained weakness. The average monthly job gains in 2025 have been 102,000. In comparison, job gains averaged 175,000 in 2024 and 209,000 in 2023. Historic revisions to the non-farm payroll reports in May and June (reduction of 258,000 jobs created) led to the termination of the head of the Bureau of Labor Statistics, creating more uncertainty for markets regarding data validity. Despite this slowdown, unemployment remains well below the “natural level of unemployment”, averaging roughly 4.16% in 2024, though it should be noted that the past three months have seen an increase from 4.1% in June to 4.3% in August.

The Federal Reserve’s preferred measure of inflation, the core personal consumption expenditures (PCE), increased 2.9% compared to August 2024, in line with both market expectations and July’s reading. This marked the highest reading since February 2025 and was the fifth consecutive increase since April (2.6%). Rounding in the reported number shows July and August in line with one another at 2.9%, but digging into the details, the report indicates a month-over-month increase from 2.853% to 2.905%. Thus, the economic conundrum continues to plague the Federal Reserve – higher inflation requires higher rates, but a weaker labor market requires lower rates, and if both exist concurrently, which is the best area to attack? Given these dual pressures, the Fed appears poised to prioritize stabilizing the labor market while tolerating modestly elevated inflation – at least in the short term.

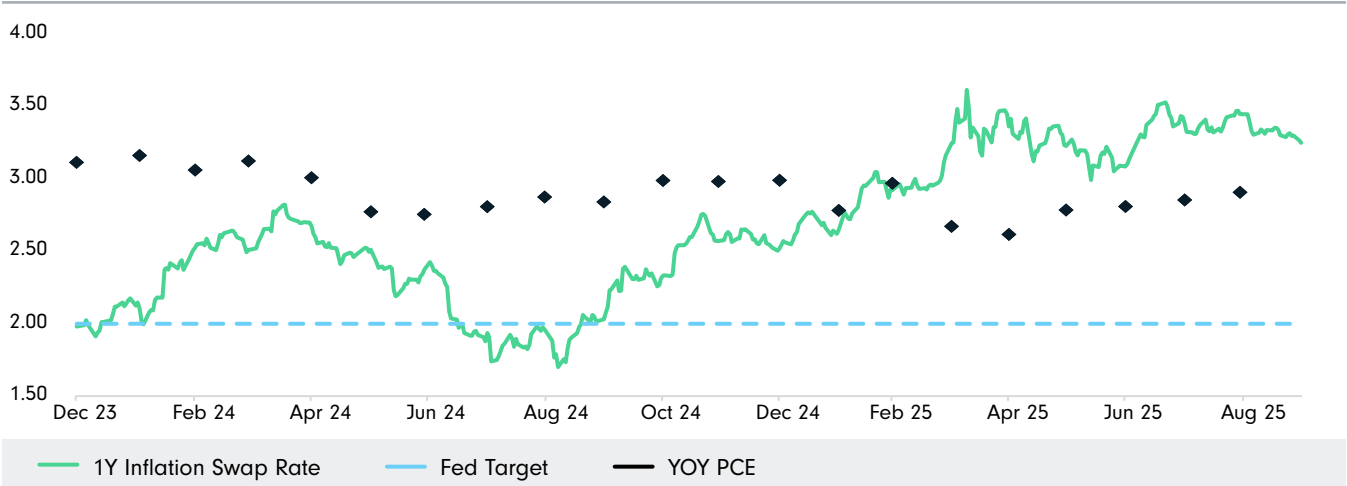
Exhibit 3 – Year-over-Year Increase in Personal Consumption Expenditures (%)



Treasury Update

The Federal Reserve has begun its latest easing cycle, but its duration will hinge on upcoming economic data. Market expectations for the future path of rates started in the latter days of the volatility brought on by Liberation Day, as the uncertainty around the breadth and depth of the tariffs fueled expectations for a more accommodating Fed. While the Fed held the line on rates during the summer, the weakening of the labor market outweighed the potential impact of stubborn inflation, and the September FOMC meeting brought the first 25 bps move since late 2024. The Treasury yield curve had been in a bull steepening shift leading into Q3, with a more stabilized spread between shorter and longer yields over the past three months. A bull steepening of the curve occurs when short-term rates move lower (fueled by an accommodative Federal Reserve), but market concern over longer-term inflation and increased Treasury issuance pushes long-term rates higher. Since the beginning of 2025, the spread between the yield on the 2-year and 10-year Treasury has grown from 0.33% to 0.54% while the spread between the 2-year and 30-year has jumped from 0.54% to 1.12% as of September.

Exhibit 4 – Inflation Remains Above Fed’s Target, Pushing Long-Term Rates Higher (%)



While the Treasury market delivered positive performance during Q3 (+1.51% for the Bloomberg US Treasury Index), it lagged both the corporate and securitized sectors and pulled the overall performance of the Bloomberg US Aggregate Bond Index lower. Returns were positive across the Treasury curve in Q3, fueled by rates grinding lower. The bull steepening curve shift we've seen throughout 2025 continued, albeit at a slower pace than prior quarters. The 2-year Treasury yield dropped from 3.72% to 3.61% while the 30-year Treasury yield slid from 4.77% to 4.73% as concerns around the fiscal situation and the impact of political impasse in Washington continued to grow.

#### Exhibit 5 — Treasury Bellwethers (%)

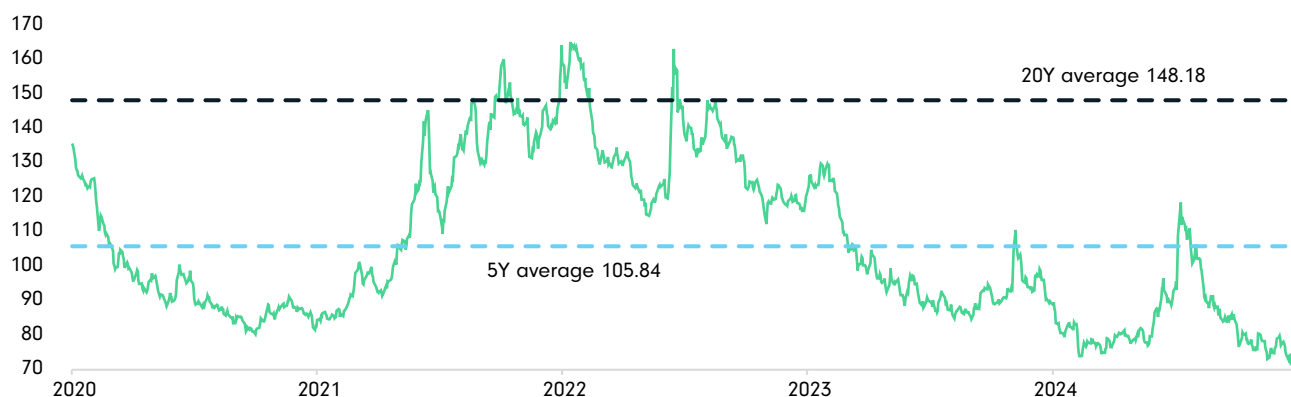
|                          | 2Y   | 5Y   | 10Y  | 30Y  |
|--------------------------|------|------|------|------|
| <b>31 Dec 2024 Yield</b> | 4.24 | 4.38 | 4.57 | 4.78 |
| <b>30 Jun 2025 Yield</b> | 3.72 | 3.80 | 4.23 | 4.77 |
| <b>30 Sep 2025 Yield</b> | 3.61 | 3.74 | 4.15 | 4.73 |
| <b>Return</b>            | 1.03 | 1.18 | 1.84 | 2.10 |

#### Corporate Update

The investment grade corporate market, as tracked by the Bloomberg US Corporate Bond Index, posted its strongest quarterly return (+2.60%) since Q3 2024 (+5.84%), driven by spread tightening and strong investor demand. Except for the market disruption in Q2 around the announcement of tariffs, investment grade corporate spreads have continued to grind tighter throughout the year. Following that disruption, investor risk appetite returned, pushing spreads lower. Investment grade corporate spread levels moved almost 10 bps lower during Q3, rallying from 83.2 bps to 73.81 bps. Spreads in this sector reached their lowest level since May 1998 in the latter part of the quarter (71.7 bps).

The yield on the Corporate Index followed a similar path, dropping roughly 18 bps from the beginning of Q3 (4.99%) to the low point in mid-September (4.70%) before climbing slightly to finish at 4.81% on September 30. Investors continue to look for opportunities in the investment grade corporate space while issuers flock to meet demand. Nearly \$400 billion in new issuance during the quarter brings year-to-date issuance to \$1.3 trillion, 3% ahead of 2024's year's pace.

#### Exhibit 6 — Investment Grade Spreads (bps)



Source: Bloomberg.

## Securitized Update

The securitized market (as measured by the Bloomberg US Securitized: MBS, ABS, CMBS Index) delivered another strong quarter of performance, returning 2.38%. The sector has consistently delivered strong quarter-over-quarter performance since the start of the year, delivering the best nine-month performance to start a calendar year (+6.70%) since 2009's 6.93%. Plain vanilla passthrough mortgage-backed securities (MBS), as measured by the Bloomberg US MBS Index, led the way, generating 2.43%, followed closely by collateralized mortgage obligations (CMOs), which returned 2.30% as measured by the ICE BofA CMO Index. Elsewhere within the securitized market, non-agency commercial mortgage-backed securities (CMBS) continued to deliver decent performance (+1.87%) while shorter-duration asset-backed securities (ABS) (+1.64%) continued their slow and steady performance, benefiting from attractive spread levels and shorter duration. Like the investment grade corporate markets, spreads moved lower throughout Q3 across all segments of the securitized market.

While spreads have moved lower throughout risk assets, higher yielding and better structured securitized segments of the market continue to offer better relative value for managers willing to dig into the details on the structures and underlying collateral. Issuance in the securitized market remains strong, with both CMBS and non-agency residential mortgage-backed securities (RMBS) outpacing issuance over the comparable 2024 period and ABS only slightly behind. After falling off the pace during Q2, issuance across securitized sectors is within striking distance of the record levels reached in 2024.

While overall market performance was strong, the quarter was not without headline risk. Subprime auto ABS issuer Tricolor filed for Chapter 7 bankruptcy following news that several banks disclosed potential losses tied to warehouse credit lines utilized by Tricolor, and the US Justice Department is conducting an ongoing investigation in alleged irregularities. Some subprime auto ABS deals from smaller issuers experienced slight spread widening in the immediate aftermath, but the reaction in the overall market was muted. The overall tone in the securitized market remains constructive heading into Q4.

## Portfolio Positioning and Performance

The Securitized Credit Fund returned 2.64% during Q3, bringing the year-to-date performance to 11.48%. The fund reached its one-year anniversary on September 30 and has returned 13.81% since inception.

The portfolio's duration was at 1.89 at the end of the quarter, slightly longer than Q2's ending level. The fund does not maintain a targeted duration level – rather, the duration is the result of the underlying securities in the portfolio and opportunities in the marketplace.

The portfolio's allocations are spread among ABS, non-agency CMBS, non-agency RMBS and agency RMBS. As of September 30, the portfolio held 45.5% in ABS, 28.4% in non-agency CMBS, 23% in non-agency RMBS and 0.8% in agency RMBS along with 2.3% cash. The portfolio had a yield-to-worst of 11.20% at the end of the quarter.

The non-agency CMBS sector was the strongest performing sector during the quarter, fueled by strong performance in both the commercial real estate collateralization loan obligation (CRE CLO) and multifamily allocations. The office sector continues to benefit from both the recovery from the pain of prior years and the near-term potential for a more accommodating Federal Reserve.

In the non-agency RMBS sector, residential transition loans (RTL) continue to perform well as does the reverse mortgage allocation. RTLs are short-term bridge, construction or renovation loans designed to help residential real estate investors purchase and renovate residential or small-balance commercial properties, generally within 12 to 36 months. Reverse mortgages are a method for homeowners 62 years and older to access their home equity, targeting those consumers that are considered "home rich, cash poor." These loans allow the homeowners to access the equity in their home without any kind of monthly payment, with the lender amortizing interest payments monthly. Payments are deducted from the home's equity when the homeowners either refinance, sell the home or pass away. ABS lagged the other securitized sectors despite strong performance from consumer unsecured, credit card and prime auto ABS. The portfolio's biggest laggard in Q3 was the subprime ABS allocation.

From a credit quality standpoint, most of the performance came from the below investment grade allocation within the portfolio, which is more than 50% of the portfolio. The non-rated portion of the portfolio detracted from performance due to allocations within subprime auto ABS and consumer unsecured.

The portfolio continues to search for opportunities in the marketplace while maintaining a mix of investment grade and non-investment securities.

The 30-day SEC Yield represents net investment income earned by the fund over the previous 30-day period, expressed as an annual percentage rate based on the Funds share price at the end of the 30-day period. Must be preceded or accompanied by a [prospectus](#). 30-day SEC Yield (CI I) for the Fund is 5.67%.

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

| Period and Annualized Total Returns (%) | Since Inception<br>(30 Sep 2024) | YTD   | 3Q25 | Expense Ratio (%) |
|-----------------------------------------|----------------------------------|-------|------|-------------------|
| Class I (DHCIX)                         | 13.81                            | 11.48 | 2.64 | 1.75              |

The Diamond Hill Securitized Credit Fund is operated as a continuously offered, non-diversified, registered closed-end, interval fund. As a result, pursuant to Rule 23c-3 under the Investment Company Act of 1940, as amended (“Company Act”), the Fund will conduct quarterly repurchase offers, at net asset value, of no less than 5% and no more than 25% of the Fund’s outstanding shares. It is possible that a repurchase offer may be oversubscribed, with the result that shareholders may only be able to have a portion of their shares repurchased. If a repurchase offer is oversubscribed by shareholders, the Fund will repurchase only a pro rata portion of shares tendered by each shareholder. There is no assurance that a shareholder will be able to tender their Fund shares when or in the amount that they desire. Shareholders should not expect to be able to sell Shares other than through the Fund’s repurchase policy, regardless of how the Fund performs.

**Risk disclosure:** An investment in the Fund should be viewed as an illiquid investment, involves a high degree of risk and is not suitable for investors that require liquidity. Shares are not redeemable, are not listed on any securities exchange, and there is not expected to be any secondary trading market in the shares to develop. In general, when interest rates rise, fixed income values fall. There are specialized risks associated with investing in securitized bond investments, including market, credit, distribution, inflation, extension, liquidity, management and interest rate risk. Lower quality/high yield securities involve greater default risk or price changes than bonds with higher credit ratings. Mortgage- and asset-backed securities are influenced by factors affecting the housing market and the assets underlying such securities. The securities may decline in value, face valuation difficulties and become more volatile and/or illiquid. They are also subject to prepayment risk, which occurs when mortgage holders refinance or repay loans sooner than expected, creating an early return of principal to loan holders. There is no assurance that monthly distributions paid by the fund will be maintained at a certain level or that dividends will be paid at all. The Fund’s distributions may be funded from unlimited amounts of offering proceeds or borrowings, which may constitute a return of capital and reduce the amount of capital available to the Fund for investment. Any capital returned to Shareholders through distributions will be distributed after payment of fees and expenses. A return of capital to Shareholder’s is a return of a portion of their original investment in the Fund, thereby reducing the tax basis of their investment. As a result from such reduction in tax basis, Shareholders may be subject to tax in connection with the sale of Shares, even if such Shares are sold at a loss relative to the Shareholder’s original investment.

The views expressed are those of Diamond Hill as of 30 September 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.

**The performance quoted represents past performance. Past performance is not indicative of future results. Investment returns and principal values will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. The Fund’s current performance may be lower or higher than the performance quoted. For current to most recent month-end performance, visit [diamond-hill.com](#).**

Performance assumes reinvestment of all distributions. Returns for periods less than one year are not annualized.

Fund holdings subject to change without notice.

Analytics provided by The Yield Book® Software.

**Carefully consider the Fund’s investment objectives, risks and expenses. This and other important information are contained in the Fund’s prospectus and summary prospectus, which are available at [diamond-hill.com](#) or calling 888.226.5595. Read carefully before investing. The Diamond Hill Funds are distributed by Foreside Financial Services, LLC (Member FINRA). Diamond Hill Capital Management, Inc., a registered investment adviser, serves as Investment Adviser to the Diamond Hill Funds and is paid a fee for its services. Not FDIC insured | No bank guarantee | May lose value**