

Core Bond Fund

As of 31 Dec 2025

Mark Jackson, CFA
Portfolio Manager

Henry Song, CFA
Portfolio Manager

Douglas Gimple
Senior Portfolio Specialist

Market review and outlook

The Bloomberg US Aggregate Bond Index returned 1.10% during Q4, bringing year-to-date performance for the index to 7.30%, the best annual performance since 2020. After lowering the Fed Funds rate by 100 basis points (bps) in 2024 and an additional 75 bps in 2025, market expectations are for the Federal Reserve to remain on hold for the foreseeable future. The one caveat to this outlook? Changes at the Federal Reserve with the unresolved court case for Lisa Cook, the pending departure of Jerome Powell and potential dovish appointments from the current administration. While the labor market has shown signs of weakness – the unemployment rate averaged 4.2% in 2025 and rates for recent months have been trending higher – the current rate is significantly lower than the 40-year average of 5.7%. From an inflation standpoint, the recent lowering trend bodes well for the consumer, as Core CPI dipped to 2.6% in the most recent data, following a period of holding at or slightly above 3% in prior months.

Updates by sector

Treasury

The yield curve extended its year-long steepening trend into Q4. The 30-year Treasury yield rose 11.3 bps in Q4 on uncertainty around the future path of inflation, ending the year at 4.84%, while the two-year Treasury yield fell 13.5 bps to 3.47%. The market moved ahead of the Fed early in the year, pushing the two-year yield lower before the Federal Reserve followed. By year end, however, expectations and policy had converged: the Fed cut the federal funds rate by 75 bps over the final four months of the year, and the two-year Treasury yield declined nearly 77 bps in 2025.

Corporate

The investment-grade corporate market, as measured by the Bloomberg US Corporate Bond Index, struggled in Q4, posting the lowest quarterly return of 2025 (+0.84%) and the weakest result since Q4 2024 (-3.04%). Spreads reversed course and widened nearly 4 bps during the quarter, rising from 73.8 bps to 77.5 bps. After bottoming in late Q3 at 71.7 bps – a level not seen since May 1998 – spreads widened to as much as 84.9 bps in late November amid heightened economic uncertainty before tightening into year-end.

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Securitized

Spreads in securitized credit followed a similar trajectory to other asset classes – tightening from 2024 until volatility around Liberation Day, then resuming their grind tighter into year-end. The notable exception was auto asset-backed securities (ABS), where spreads remained modestly wider year over year, in part due to disruption from the Tricolor bankruptcy. Even with broad-based spread compression, the higher-yielding, better-structured parts of securitized credit continued to offer more compelling relative value for managers willing to do the work on structure and collateral. Issuance closed the year on a strong note, with the best December in several years and record full-year 2025 volume.

Q4 performance review

Key contributors

- Strong performance in non-agency residential mortgage-backed securities (RMBS) contributed to relative performance as the sector outpaced the overall benchmark return (the benchmark does not include non-agency RMBS).
- Security selection within non-agency commercial mortgage-backed securities (CMBS) led to outperformance as non-benchmark eligible segments of this market delivered strong relative returns.
- Within the portfolio's ABS allocation, consumer unsecured and credit card sectors outpaced the benchmark's ABS allocation as well as the overall benchmark.

Key detractors

- The combination of an underweight position, as well as longer duration posture relative to the benchmark in Treasurys, detracted from performance during the quarter, as longer rates moved higher while shorter rates contracted.
- The corporate allocation within the portfolio outperformed the benchmark allocation, but the advantage was negated by the portfolio's underweight position.
- Agency RMBS delivered strong performance during the quarter and while the portfolio's allocation kept pace, the sizable underweight in favor of collateralized mortgage obligations (CMOs) resulted in a negative impact to relative performance.

2025 performance review

Key contributors

- Non-agency RMBS and non-agency CMBS saw strong performance relative to benchmark performance.
- The stability of the portfolio's structured CMOs over plain vanilla passthroughs during a rather chaotic interest rate environment in 2025 contributed to relative performance.
- The portfolio's emphasis on non-benchmark securitized sectors supported relative performance, with average exposure of 61.3% vs 26.5% for the benchmark – more than a two-to-one difference – as these sectors led the market.

Key detractors

- The year-long steepening of the Treasury curve detracted from relative performance, as the portfolio holds a longer duration posture in the sector compared to the benchmark.
- Non-corporate credit contributed meaningfully to benchmark performance but was not held in the portfolio; however, the benchmark's limited exposure to the sector muted the overall impact.
- Despite strong security selection in the corporate sector, the portfolio's underweight relative to the benchmark detracted from performance.

| Period and Annualized Total Returns (%) | Since Inception (5 Jul 2016) | 5Y | 3Y | 1Y | YTD | 4Q25 | Expense Ratio (%) |
|---|---------------------------------|-------|------|------|------|------|----------------------|
| Class I (DHRIX) | 2.33 | 0.61 | 5.71 | 7.16 | 7.16 | 0.86 | 0.47 |
| Bloomberg US Aggregate Bond Index | 1.49 | -0.36 | 4.66 | 7.30 | 7.30 | 1.10 | — |

Risk disclosure: In general, when interest rates rise, fixed income values fall. 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.

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