Securitized Credit Fund

As of 30 Jun 2026

DIAMOND HILL
A First Eagle Investments Company

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Market review and outlook

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 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 3.59%.

- 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 0.91%.

- 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 was down -4.46% but is a minimal weight in the portfolio. The portfolio's non-agency RMBS allocation, a sector not represented in the benchmark, returned 2.66%.

Q2 performance review

The Diamond Hill Securitized Credit Fund returned 2.34% during 2Q26, 4.02% year to date and 7.69% over the past year.

Sector allocation as of 30 June 2026:

- ABS: 47.9%
- Non-agency CMBS: 11.9%
- Non-agency RMBS: 30.2%
- Cash: 3.9%

Key contributors

- Unsecured consumer, credit card and small business ABS were the largest contributors to performance for the ABS sector, as consumer-related securities continued to hold up well in the face of economic and geopolitical uncertainty.
- Non-agency RMBS delivered the second-best performance in the portfolio, fueled by strong performance in both the reverse mortgage and second lien sectors, reflecting the growing strength of the home equity financing markets.
- The below-investment grade and not rated allocations contributed significantly to 2Q26 performance though there was strong performance across the credit quality spectrum.

Key detractors

- The fund's minimal allocation to agency RMBS detracted from performance, as the longer duration allocation was negatively impacted by rising rates across the curve (especially on the longer end), though this was mitigated by the underweight allocation relative to the benchmark.
- While positive from a total return standpoint, the allocation to office CMBS trailed the overall portfolio performance during the quarter, reducing the overall return.
- 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 declined during the quarter.

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

Period and Annualized Total Returns (%)

	Since Inception (30 Sep 2024)	1Y	YTD	2Q26	Expense Ratio (%)
Class I (DHCIX)	10.68	7.69	4.02	2.34	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.

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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.

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