ON-DEMAND AUDIO TRANSCRIPT

2025 Annual U.S. Fixed Income Review

Alex: Welcome to Dodge & Cox's 2025 U.S. Fixed Income Investment Review. I'm Alex Chartz, Vice President and Client Portfolio Manager. It's my pleasure to introduce Lucy Johns, Senior Vice President, Director of Fixed Income, and member of the U.S. and Global Fixed Income Investment Committees. Thanks for joining us, Lucy.

Lucy: Happy to be here, Alex.

Alex: In this audiocast, we'll review the U.S. fixed income market backdrop, the Income Fund's performance, and where we're finding opportunities. Lucy, before we jump in, the U.S. bond market just wrapped up its best year since 2020, with the Bloomberg U.S. Agg (U.S. Aggregate Bond Index) returning 7.3%.[1] What drove the benchmark's strong return?

Lucy: Yes, it was a year in which really all parts of the fixed income market came together to create strong performance. Namely that means yields going down and strong performance from both the Securitized sector as well as the Credit sector. We can dive into that a bit more.

On the top part of the slide, we show the yield curve a year ago: U.S. Treasury yields a year ago versus U.S. Treasury yields at the end of 2025. What you note is that we saw a decline across almost the full curve and that was led by the Fed (Federal Reserve) cutting rates about 75 basis points over the course of the year, mainly toward the end of the year. So, the front end of the yield curve—shorter bonds—dropped around that amount. The 10-year [U.S. Treasury yield] fell about 40 basis points and the 30-year remained anchored. It actually rose about six basis points, so we call that a steepening of the yield curve. That was a big development over the course of the year.

Then, if we move to the bottom of the page on the bottom left, we see credit spreads. As I mentioned, this was a strong year for credit as well, and even though there was some volatility and excitement, some widening in April—and that was an active time for us as investors—overall, throughout the year, spreads declined just a few basis points. We don't have here a historical chart of mortgage-backed security (MBS) spreads, but they notably declined during the year. So, if we put that all together and move to the bottom right, we see excess returns—returns versus U.S. Treasuries for different sectors in the bond market—and you see positive returns across the board and pretty notably for mortgage-backed securities—MBS here—that's showing higher than credit. That's somewhat unusual, and that's a big area of emphasis for us that we'll talk about throughout this conversation.

Alex: Great, let's turn to performance results. On the screen here, we have the Dodge & Cox Income Fund in brown and the U.S. Agg in light blue. If we look to the year, the Income Fund returned 8.3%, representing outperformance versus the U.S. Agg of just over 100 basis points. Can you speak to what factors drove that outperformance for the year?

Lucy: Absolutely. When we break down drivers of relative performance, we look at three main buckets for that: security selection, asset allocation, and then relative duration or yield curve positioning. Happily, all three of those contributed to our positive relative returns in 2025. The largest of those three was security selection. If you were to look at the drivers of our longer-term numbers that you see here, security selection has been the largest and the most consistent factor over time. That's really aligned with our focus as a firm on bottom-up investing, on security selection, and spending a lot of time on each and every issuer in the portfolio. So, that was the largest driver, and breaking that down a bit more, that happened on both the Securitized and the Credit sides.[2] On the Securitized side, our coupon selection, so what coupon within the mortgage universe we were investing in, was useful.[3] On the Credit side, we had a couple of notable outperformers; I'd mention Pemex, Prosus, and [the Republic of] Colombia.

Alex: Let's dive in a little bit deeper on Pemex. Can you talk about some of the developments at the issuer over the past year that helped performance?

Lucy: Yes, Pemex has been one of our largest Credit [sector] holdings for many years now, and so, consistent with what I was talking about, it's a company our analysts have spent a tremendous amount of time thinking through and probing and stress testing. Happily, this year was a very strong year for Pemex, with some of the bonds that we own returning in excess of 20%, so a big number for a bond investment.

What happened during the year, and notably in the third quarter, was that the Mexican government took discrete steps to support Pemex and their financial standing. They provided billions of dollars in support and signaled more support in the future. These actions then caused the rating agencies to upgrade the rating of Pemex, and this drove meaningful declines in the spreads of Pemex, which really drove this outperformance. Now, Pemex as a standalone company continues to face challenges: financial challenges, operating challenges, [and] governance challenges. So, we're certainly continuing to be mindful of that, but our belief is that that Mexico will continue to support this strategic asset, and so we continue to find the bonds attractive.

Alex: Let's switch gears and talk about changes in the portfolio. You mentioned spreads tightened within the Credit and MBS sectors. In this environment, what high-level changes did we make in the portfolio?

Lucy: The biggest change that we made, if we focus on the bottom left of the slide, is that over the course of the year, we added to the Securitized part of the portfolio. We added around 5%, and that was mainly funded by [U.S.] Treasury securities. You see that on the far left of that chart, those coming down. Essentially, as we evaluated opportunities across the bond market during the year, we felt that investing more in securitized products, specifically some high-quality asset-backed securities or ABS, specifically prime autos and student loans, we thought they were attractive, short-dated cash flows, and a way to pick up incremental yield. But if you look at the range of returns and risks for those types of instruments, they're lower than, say, most credits. So, this was a way to again add incremental income and not take on a lot of risk. We also added to mortgage-backed securities because we thought that the valuations there were also relatively attractive. Much of what we've been adding to is lower-coupon mortgage-backed securities. These have less cash flow variability. They're out of the money, meaning that the borrowers do not have an incentive to refinance, and so the prepayment rates are relatively predictable. We find that these have also been an attractive area to lean into in this environment.

Alex: The portfolio's Credit weighting remained roughly unchanged over the year. If we look to the upper-left table, the net change in Credit for the year was just 30 basis points higher, but there was a lot of activity going on under the hood. Can you speak to some of the changes that we made within the sector?

Lucy: Yes. The right-hand side of the page really illustrates that activity you were talking about under the hood of a very low change in the aggregate exposure to Credit, you see lots of changes to individual names. This is not surprising because this is how our Investment Committee spends a lot of its time—looking and vetting individual issuers rather than making sort of top-down asset allocation decisions. Some of the guiding principles that we use to inform these decisions are strict valuation discipline—as we've been talking about a bit, this is an environment of tight credit spreads, so that's been top of mind for us—fundamental research, and then a long-term time horizon. We try and look at each idea through the lens of a three- to five-year time horizon. That's important in fixed income because you're building yield and compounding that yield as a source of return.

Thematically, within this, if you look toward the bottom of the page, we've been reducing many names. Some of them matured, but for example, one area that we've looked at is where we have exposure to longer-dated credit, which is more sensitive to price risk. We've trimmed that where we didn't feel like we're being compensated for those risks. So, one example of that here is Charter Communications. That's an issuer that we've trimmed, and we feel that we still have conviction in Charter's cash flows, scale, and business model, but the industry has gotten more competitive. There's been some threats from mobile telecom providers, and so we did want to take some exposure off that name.

Conversely, if you move to the top of the page, there's many names that we actually found interesting to add to over the course of the last year. We've mainly added to three- to seven-year maturity bonds with less of that price risk that I just referenced with longer-dated bonds. Many of the names I would classify as being relatively high quality, relatively stable franchises. For example, Mars is a very large food and pet company. NextEra Energy is a utility, which tends to be a very stable business. More recently in the fourth quarter, we added a small position in Meta [Platforms]. There's been a lot of headlines around AI issuance. Most of that's occurring in the hyperscalers, a small set of very high-rated companies. We haven't found a lot of opportunities, but Meta is a name that we know well—we own it on our equity side, so we have our ongoing collaboration with that team. It's a AA- company, very highly rated, and has incredibly strong cash flows and enterprise value.

Alex: Continuing with the credit theme, one question we've been receiving from clients recently is why do you remain overweight Credit with spreads near multi-decade tights? How would you respond to that?

Lucy: That is a well-reasoned question, and I think it's important to anchor in what we're talking about there. If we look at the left-hand chart on this slide, we're giving that context. What you see is the last 20 years of spread levels for the Corporate Index (Bloomberg U.S. Corporate Bond Index) and different parts of that. On those bars is both the median level as well as the year-end 2025 level. At the bottom, you see what percentile we're in as of the end of 2025. What you see is a very low number, which is what you're referencing, and that does indeed indicate that relative to recent decades, valuations within [the] Credit [sector] are broadly not attractive. We agree with that. If one was investing in an index or in a passive strategy, we do agree that that does not seem particularly attractive, but we don't own the Index.

The right-hand side of the chart shows how our active strategy results in different characteristics versus the Index. Notably, we only own 62 hand-picked issuers versus over a thousand in the Index. In addition, we have shorter duration holdings, so there's less price risk. We talked about that a bit already. We also have higher spread holdings as well. So, all these things combined—when we put them together and when we model out returns for our individual holdings—we still think that it's an attractive risk/return profile versus [U.S.] Treasuries.

Alex: Turning to portfolio structure, we'll focus on the sector composition in the upper left. The Income Fund is in brown, the [U.S.] Agg is in light blue, and what you'll see is that we're meaningfully underweight U.S. Treasuries. We're overweight Securitized, mostly Agency[4] MBS, but also some asset-backed securities, and then modestly overweight Corporate. Lucy, how would you sum up our sector positioning?

Lucy: I think by virtue of that positioning, what we're signaling is that we're positioned relatively defensively versus much of our history. In many other environments, we've had higher Corporate weight, sometimes much higher, and at this stage, we've really scaled that back to be more defensive. At the same time, that means we now have a very large pool of a combination of [U.S.] Treasuries and MBS—high quality, highly liquid. This really puts us in a state with a lot of optionality, a lot of flexibility to react to future opportunities. So, these are some of the themes that describe how we're positioned today.

Alex: Turning to the summary characteristics, the Income Fund has a 40 basis point yield advantage [based on yield to worst] versus the [U.S.] Agg. Where is that yield advantage mostly coming from?

Lucy: At this point, most of that yield advantage is coming from that large overweight in securitized products. The underlying yield for securitized products between the Index and our holdings in that area is similar, but we own a lot more of it, which has really driven some incremental income and yield in our portfolio. As we've discussed, we view that as a durable and attractive risk-adjusted source of yield.

Alex: So, the Income Fund has a 6.1-year duration, slightly over the [U.S.] Agg's six-year duration. Can you talk a little bit about some of the factors that influence that positioning?

Lucy: Yes. When thinking about where we want to be from a duration standpoint, we're thinking about current starting yields as one point. So, if we look at nominal and real or inflation-adjusted yields today versus much of the last 15 years, we think they still look pretty attractive. This yield provides income and helps cushion against potential price declines if yields were to rise, and so this is a good setup, we think, for duration.

In addition, as our team looks out at the future, we think that inflation's likely to continue to subside. The Fed's likely to do a few more cuts and so yields in general are likely to be stable to declining. In that environment, duration should add to returns, and so that's informing our position. Lastly, we think about duration's role as a portfolio diversifier. If we were to see a risk-off event—a recession, a crack in the AI enthusiasm, or something else—that would be an environment in which we'd expect credit spreads or other spreads to widen. In those cases, we think that interest rates could fall, and duration could serve as somewhat of a hedge. Those are some of the key factors we think about in duration positioning.

Alex: Lucy, would you like to share any thoughts on our outlook?

Lucy: I think I'll just close by saying that we remain relatively optimistic about the fixed income outlook. Again, some of that stems from where we are starting from a yield perspective and also the health of the economy, and relatively positive fundamentals, but spreads are tight and we have to acknowledge that. So, we're not jumping up and down with excitement. As we've said in recent years, we're actually voting for some volatility as an active manager that may bring some short-term pain, but it will create some long-term opportunities. So, let's see what 2026 brings.

Alex: Great. Thank you, Lucy, and thank you all for tuning in.

The Income Fund — Class I's Yield to Worst was 4.7% and the SEC yield calculated for December 31, 2025 was 4.21%. This material must be accompanied or preceded by the Fund's prospectus.

Dodge & Cox Income Fund — Class I SEC Standardized Average Annual Total Returns as of December 31, 2025: 1 Year 8.32%, 5 Years 1.05%, 10 Years 3.35%. Fund and Index standardized performance is available on our website.

Income Fund's Ten Largest Positions (as of December 31, 2025): Fannie Mae (22.9% of the Fund), Freddie Mac (19.2%), U.S. Treasury Note/Bond (13.9%), Ginnie Mae (3.3%), Navient Student Loan Trust (2.1%), Petroleos Mexicanos (2.0%), Charter Communications, Inc. (1.5%), HSBC Holdings PLC (1.3%), Prosus NV (1.2%), and JPMorgan Chase & Co. (1.2%).

1 All Fund performance results discussed are for the Class I shares of the Income Fund.

2 Unless otherwise specified, all weightings and characteristics are as of December 31, 2025.

3 The use of specific examples does not imply that they are more or less attractive investments than the Fund's other holdings.

4 The U.S. Government does not guarantee the Fund's shares, yield, or net asset value. The agency guarantee (by, for example, Ginnie Mae, Fannie Mae, or Freddie Mac) does not eliminate market risk.

Statements in this presentation represent the opinions of the speakers expressed at the time the presentation was recorded, and may change based on market and other conditions without notice. The statements are not intended to forecast or guarantee future events or results for any product or service, or serve as investment advice.

The information provided is not a complete analysis of every material fact concerning any market, industry or investment. Data has been obtained from sources considered reliable, but Dodge & Cox makes no representations as to the completeness or accuracy of such information. The information provided is historical and does not predict future results or profitability. This is not a recommendation to buy, sell, or hold any security and is not indicative of Dodge & Cox's current or future trading activity. Any securities identified are subject to change without notice and do not represent a Fund's entire holdings. This information is the confidential and proprietary product of Dodge & Cox. Any unauthorized use, reproduction, or disclosure is strictly prohibited. These materials are provided solely for use in this presentation and are intended for informational and discussion purposes only. Dodge & Cox does not guarantee the future performance of any account (including Dodge & Cox Funds) or any specific level of performance, the success of any investment decision or strategy that Dodge & Cox may use, or the success of Dodge & Cox's overall management of an account. Investment decisions made for a client's account by Dodge & Cox are subject to various market, currency, economic, political, and business risks (foreign investing, especially in developing countries, has special risks such as currency and market volatility and political and social instability), and those investment decisions will not always be profitable.

The Fund invests in securities and other instruments whose market values fluctuate within a wide range so your investment may be worth more or less than its original cost. International investing involves more risk than investing in the U.S. alone, including currency risk and a greater risk of political and/or economic instability; these risks are heightened in emerging markets. The Fund may use derivatives to create or hedge investment exposure, which may involve additional and/or greater risks than investing in securities, including more liquidity risk and the risk of a counterparty default. Some derivatives create leverage.

Returns represent past performance and do not guarantee future results. Investment return and share price will fluctuate with market conditions, and investors may have a gain or loss when shares are sold. Fund performance changes over time and currently may be significantly lower than stated above. Performance is updated and published monthly.

Before investing in any Dodge & Cox Fund, you should carefully consider the Fund's investment objectives, risks, and charges and expenses. To obtain a Fund's prospectus and summary prospectus, which contain this and other important information, or for current month-end performance figures, visit dodgeandcox.com or call 800-621-3979. Please read the prospectus and summary prospectus carefully before investing.

Dodge & Cox Funds are distributed by Foreside Fund Services, LLC, which is not affiliated with Dodge & Cox.

See dodgeandcox.com/disclosures for a full list of financial terms and Index definitions.