Diamond Hill Short Duration Securitized Bond Strategy

As of September 30, 2020

All Composite returns are net of fees.

The Composite increased 3.46% during the third quarter, compared to a 0.23% increase for the Bloomberg Barclays U.S. 1-3 Year Government/Credit Index. Since its inception, the strategy has generated an annualized total return of 3.43% compared to 2.20% for the Index. The goal of the Diamond Hill Short Duration Securitized Bond strategy is to outperform the Index over a market cycle, while generating a yield and return advantage relative to the benchmark.

We are entering the final quarter of what has been a historically destructive and disruptive year in the financial markets. Although the third quarter of 2020 provided a brief respite from the volatility and uncertainty of the first two quarters, the relief of nearing the end of this unprecedented year is tempered by the potential for a contested U.S. presidential election, ongoing political maneuvering for additional stimulus from the federal government for both the consumer and various industries and the re-emergence of geopolitical risks like Brexit. Regardless of how long it takes to determine a winner, we should have an idea of who will be running the country over the next four years by the time we put together the next installation of this commentary. But there are expectations for continued volatility as the country sorts through this most unique election. Early in the third quarter, markets moved based on potential resolution to additional stimulus, even as each step forward was followed by two steps back. Near the end of the quarter, daily updates about House Speaker Nancy Pelosi and Treasury Secretary Steve Mnuchin were met with disdain, as expectations faded for agreement on stimulus. Though assumptions were that something would eventually get done, the final composition of stimulus remained unclear. Who would have thought that the future of Brexit would hinge on fishing rights? Obviously, there's much more to the impasse between the European Union and the United Kingdom, but fishing rights have moved to the forefront amongst other issues. U.K. Prime Minister Boris Johnson earmarked October 15 as a deadline for resolution to outstanding issues and the market sees the showdown as just more noise in the ongoing drama that is Brexit.

TEAM

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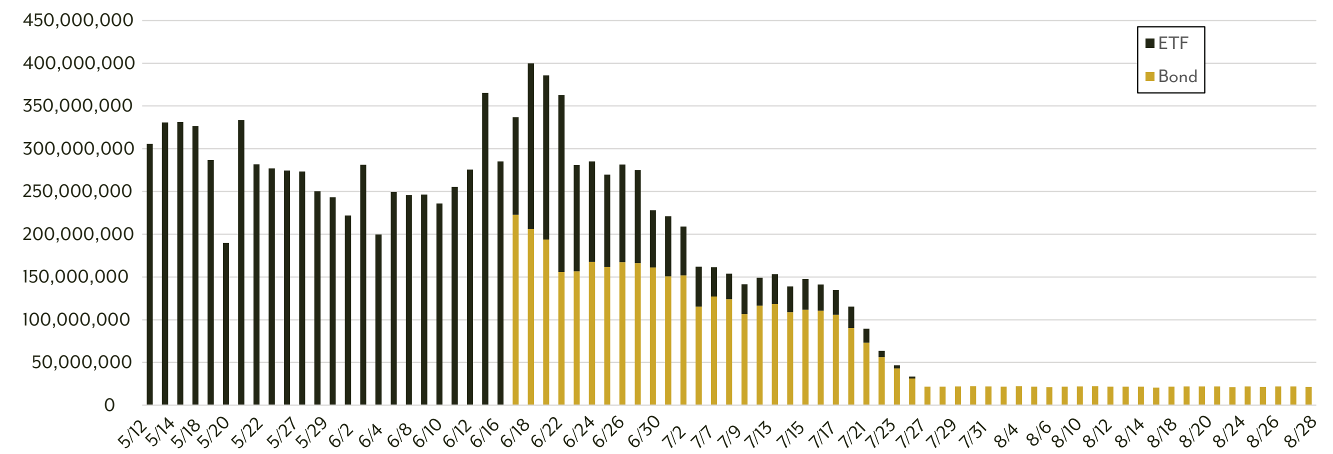
The jobs market continues its recovery, though the pace has slowed from the significant jump in the second quarter, fueled by 7.5 million jobs added in May and June. In July, August and September, a combined 3.9 million jobs were added, with the three months ranking in the top six non-farm payroll reports since 1980. Since lockdowns began in March and the economy slowly began re-opening gradually over the past several months, the economy is still down a net 10.7 million jobs. Unemployment continues to grind lower, from the historic peak of 22.8% in April to September's report of 12.8%.

The Federal Reserve continues to provide support to the financial markets through the Secondary Market Corporate Credit Facility (SMCCF), though the pace of purchases continues to slow. Despite having $250 billion pledged to purchase both corporate bonds and ETFs on the secondary market, available data as of September 8 shows that the SMCCF has only deployed roughly 5.1% of the allotted funds. Purchases have focused in the ETF space, totaling roughly $8.6 billion compared to the bond holdings of $4.0 billion. ETF purchases dominate the total holdings despite the SMCFF's decision to halt purchasing ETFs in late July. The Primary Market Corporate Credit Facility (PMCCF) remains untapped, with the $500 billion pledged to this facility going unused.

DIAMOND HILL CAPITAL MANAGEMENT

CORPORATE BOND PURCHASES BY THE FEDERAL RESERVE



Source: Federal Reserve.

Not only has the Fed extended the perceived support for the corporate market by extending the SMCCF and PMCCF to the end of the year, individual members of the Fed have been delivering speeches at a nearly unprecedented level. Prior to September, the Fed averaged roughly 29 speeches/appearances on a monthly basis but in September, Fed members ramped up their communications to the tune of 49 speeches and appearances, nearly twice the year-to-date run rate. Meeting topics ranged from John Williams discussing the impacts of COVID-19 in a webinar, Raphael Bostic discussing racial injustice or Neel Kashkari addressing "Too Big to Fail." The topics covered throughout the month of September demonstrate the Fed's focus on the impacts of COVID on the U.S. economy as well as its approach to social issues such as racial injustice.

If one were to just look at the yield curve at the beginning of the quarter and the end of the quarter, there wouldn't be much change as the 10-year Treasury moved from 0.71% to 0.69%. and the 30-year Treasury moved from 1.48% to 1.46%. But looking at the movement during the quarter, the 10-year Treasury traded within a range of 0.51% and 0.75% and the 30-year traded within a range of 1.19% to 1.51%. The biggest shift in yields occurred in the middle of August as a result of a less-than-enthusiastic auction of 30-year bonds as the market seemed overwhelmed with the $26 billion issuance followed closely by $25 billion in issuance of the 20-year bond a few days later. Reflecting the clearly communicated 'lower for longer' mandate from the Fed, the shorter end of the curve was unchanged quarter over quarter with the 3-month, 6-month, 1-year, 2-year and 3-year Treasuries finishing at the same yield levels at which they started. Despite the aforementioned volatility in mid-August, the shape of the curve held constant as the volatility was felt all across the curve with some slight steepening with the longer end moving higher.

It is important to note that the Short Duration Securitized Bond strategy works to provide yield for investors while focusing on the shorter end of the fixed income markets. We believe there are opportunities to add incremental yield over the benchmark by investing in structured product across the quality spectrum. The strategy strives to maintain an average credit quality rating of A / BBB while taking advantage of mispriced opportunities in both unrated securities and an allocation to below investment grade securities.

As of September 30, 2020, the strategy had a yield-to-worst (YTW) of 3.91% with an effective duration of 1.27, compared to the previous quarter end's YTW of 5.20% and effective duration of 1.22. The decrease in yield for the strategy can be attributed to the significant rebound in pricing across the asset-backed securities (ABS) market that began in mid-April and continued through quarter-end. The ABS sector remains the largest allocation in the strategy and was the strongest contributor to performance of the portfolio over the benchmark.

Within the securitized sector, ABS delivered the strongest performance followed by non-agency commercial mortgage-backed securities (CMBS). Both the ABS and CMBS sectors contributed to performance relative to the benchmark. Within the ABS sector, ABS deals backed by small business loans were the strongest performers, as these securities continued to rebound from distressed pricing in the second quarter, which was driven by market technicals and not fundamental concerns. Securities backed by unsecured consumer securitizations also performed well during the quarter. The strategy's overweight position relative to the benchmark contributed to performance as the sector delivered strong returns during the quarter.

The strategy continues to search for opportunities in the marketplace while maintaining an attractive yield relative to the benchmark.

PERIOD & ANNUALIZED TOTAL RETURNS (%)

Inception Date: July 31, 2016

	SINCE INCEPTION	3-YR	1-YR	YTD	3Q20
SHORT DURATION SECURITIZED BOND COMPOSITE					
Gross of Fees	3.79	3.66	1.84	0.96	3.55
Net of Fees	3.43	3.30	1.49	0.70	3.46
BENCHMARK					
Bloomberg Barclays U.S. 1-3 Yr. Gov./Credit Index	2.20	2.84	3.73	3.12	0.23

CALENDAR YEAR RETURNS (%)

	7/31/16 - 12/31/16	2017	2018	2019
SHORT DURATION SECURITIZED BOND COMPOSITE				
Gross of Fees	0.88	4.90	3.77	5.34
Net of Fees	0.73	4.53	3.41	4.97
BENCHMARK				
Bloomberg Barclays U.S. 1-3 Yr. Gov./Credit Index	-0.38	0.84	1.60	4.03

Analytics provided by The Yield Book® Software. Diamond Hill Capital Management Inc. (DHCM) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS Standards. DHCM has been independently verified for the period 5/31/00 – 6/30/20. DHCM's current verification firm is ACA Compliance Group. The verification report(s) is/are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. DHCM is a registered investment adviser and wholly owned subsidiary of Diamond Hill Investment Group, Inc.; registration does not imply a certain level of skill or training. DHCM provides investment management services to individuals and institutional investors through mutual funds and separate accounts. A complete list and description of all composites and policies for valuing portfolios, calculating and reporting returns, and preparing compliant presentations are available upon request. The Short Duration Securitized Bond Composite is comprised of discretionary non-fee and fee paying non-wrap accounts with a market value over $200M managed according to the firm's Short Duration Securitized Bond fixed income strategy. The strategy's investment objective is to maximize total return with the preservation of capital. The strategy generally invests in a diversified portfolio of investment grade, fixed income securities, including bonds, debt securities and other similar U.S. dollar-denominated instruments issued by various U.S. public- or private-sector entities, by foreign corporations or U.S. affiliates of foreign corporations or by foreign 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 DHCM . The portfolio may invest up to 20% of its assets in below-investment grade securities at the time of purchase and will typically maintain an average portfolio duration of less than three. 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 U.S. Dollars. Net returns are calculated by reducing the gross returns by either the actual client fee paid or the highest stated fee in the composite fee schedule, depending on the type of client and account, and are reduced by estimated accrued performance based fees where applicable. Only transaction costs are deducted from gross of fees returns. The Bloomberg Barclays U.S. 1-3 Yr. Gov./Credit Index is an unmanaged index of investment grade government and corporate bonds with maturities of one to three years. Our selection process may lead to portfolios that differ markedly from the benchmarks presented. Returns may be more volatile than, and/ or may not be correlated to these indices, which are for comparative purposes only. The Firm's standard fee schedule for Short Duration Securitized Bond separate accounts is as follows: First $200,000,000 = 0.45%; Next $200,000,000 = 0.35%. The dispersion measure is the asset weighted standard deviation of the annual portfolio returns. Only portfolios represented in the composite for the entire year are included in the calculation. The calculation is not performed if the composite contains 5 or fewer accounts for the full year. No alteration of composites as presented here has occurred because of changes in personnel at any time. **Past performance is not a guarantee of future results.** GIPS is a trademark of CFA Institute. CFA Institute has not been involved in the preparation or review of this report/advertisement. Index data source: Bloomberg Index Services Limited. See diamond-hill.com/disclosures for a full copy of the disclaimer.

AS OF YEAR-END	DHCM	SHORT DURATION SECURITIZED BOND COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)	
	Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Short Duration Securitized Bond Composite	Bloomberg Barclays U.S. 1-3 Yr. Gov./ Credit Index
2019	$23.4B	5 or fewer	$808.7M	NA [1]	0.64%	0.92%
2018	19.1B	5 or fewer	579.3M	NA [1]	NA [2]	NA [2]
2017	22.3B	5 or fewer	312.9M	NA [1]	NA [2]	NA [2]
2016	19.4B	5 or fewer	197.5M	NA [1]	NA [2]	NA [2]

[1] NA = Not Applicable

[2] Statistics are not presented because 36 monthly returns are not available.

This composite was created in July 2016.

As of September 30, 2020, the Short Duration Total Return Composite was renamed the Short Duration Securitized Bond Composite.

Global Investment Performance Standards