

All Fund returns based on Class I shares.

The Fund generated a 0.90% total return during the first quarter, compared to a -3.67% total return for the ICE BofA U.S. Corporate & High Yield Index. For the trailing five years, the Fund generated an annualized total return of 8.30% compared to 5.48% for the corporate & high yield index.

Unlike most corporate bond funds, the Diamond Hill Corporate Credit Fund is not managed against any index. Instead, the Fund is managed against absolute objectives within a range of inflation plus 3% and 7% nominal, each measured over rolling five-year periods. Our goal is to generate a yield and total return within that range while minimizing the risk of downside volatility over longer time periods. Although the Fund's investable universe (and the corporate & high yield index) includes both investment grade and high yield corporate bonds, since early 2010, the Fund has been largely focused on the high yield portion of the market to achieve these objectives. About 90% of the Fund was in high yield corporate bonds at the end of the first quarter.

The high yield portion of the U.S. corporate bond market, as represented by the ICE BofA U.S. High Yield Index, began the quarter with a yield-to-worst (YTW) of 4.24% and an option-adjusted spread (OAS) of 386 basis points (bps). After generating a 0.90% total return for the quarter, the high yield index ended the quarter with a 4.27% YTW and OAS of 336 bps.

Bottom-up credit selection is always the core of our process. Over the last three years, compared to the high yield index, selection was positive in 14 of 19 industries and the negative selection was small. Although not as significant as selection, duration management and yield curve positioning also contributed to trailing three-year outperformance over the high yield index.

During the first quarter, however, the move higher in interest rates was so sharp that duration management and yield curve positioning were especially important. Both inflation expectations and real yields (the yield after expected inflation) were very low coming into the year while the economy was picking up steam due

TEAM

Bill Zox, CFA
Portfolio Manager

John McClain, CFA
Portfolio Manager

Douglas Gimble
Senior Portfolio Specialist

to fiscal and monetary stimulus and optimism about the remarkable efficacy of the COVID-19 vaccines. At the beginning of the year, the Fund's duration was 3.13 compared to 3.67 for the high yield index. Contrast this to the end of the first quarter of 2020 when the Fund's duration was 5.08. We can go long periods of time with no strong views on interest rate risk, but when we do have them, we will act. Over the last year, we have been both well above and well below the high yield index duration and each time the positioning was additive to performance.

Good duration management and yield curve positioning were also important in the first quarter because of the significant outperformance of the CCC-rated and below portion of the high yield market. The ICE BofA CCC & Lower U.S. High Yield Index returned 5.21% during the first quarter compared to negative 0.21% for the ICE BofA BB U.S. High Yield Index. The Fund is structurally underweight CCCs and this hurt relative performance during the quarter. However, this was more than offset by a significant underweight to both BBs and duration.

Despite the significant move higher in interest rates during the quarter, with the 10-year Treasury yield increasing from 0.91% to 1.74%, the Fund's duration ended the quarter at 3.19, only 6 basis points higher than the duration at the beginning of the year. In contrast, the duration of the high yield index increased from 3.67 to 4.05. Still, we did find opportunities in very high quality 8-10 year high yield bonds and we would be happy to add to these positions if warranted. From a high level, BB-rated corporate bonds are especially compelling compared to BBB-rated corporate bonds with roughly twice the credit spread but only 60% of the duration. Within that universe, we have identified specific bonds that we believe are significantly undervalued with minimal credit risk. In many cases, these companies have publicly traded equities and market capitalizations many times the size of their debt. But they come under pressure when investors are concerned about duration. In some cases, the pressure due to duration is so intense that the credit spread widens even though there are no fundamental issues with the credit. We want to be in a strong position to take advantage of these opportunities when they arise.



Diamond Hill Corporate Credit Fund Commentary

As of March 31, 2021

In our last commentary, we wrote about the importance of high equity prices and a strong corporate bond new issue market. US high yield issuance set a new record in the first quarter at just over \$150 billion. And the S&P 500[®] Index gained over 6% while the Russell 2000[®] Index gained close to 13%. So these factors continue to support the high yield market. We still believe that U.S. high yield is one of the more attractive markets for global investors to find a starting yield well above inflation. But we continue to monitor the long-term economic costs of the pandemic including the potential for higher interest rates, higher taxes and the tapering of extraordinary fiscal and monetary stimulus. We are constantly evaluating corporate bond prices against the prices of other financial assets, access to capital and relevant risks to inform us on how much risk is appropriate.

The Fund's YTW is typically somewhere in the range of our absolute objectives, although it was well below the low end of the range in late June 2014 and well above the high end of the range in early February 2016 and again at the beginning of the second quarter of 2020. At the end of the first quarter, the Fund's YTW was below the low end of the range at 4.32% and the effective duration was 3.19. This compares to the high yield index with a 4.27% YTW and 4.05 effective duration.

As always, we are focused on delivering risk-adjusted returns over a complete market cycle by holding up better during down markets and capturing our fair share of the upside in strong markets. With extraordinary fiscal and monetary stimulus and an improving economy, we continue to be constructive on corporate credit.

PERIOD AND ANNUALIZED TOTAL RETURNS AS OF MARCH 31, 2021

	SINCE INCEPTION (9/30/02)	15-YR	10-YR	5-YR	3-YR	1-YR	YTD	1Q21	EXPENSE RATIO
CORPORATE CREDIT FUND									
Class I	7.31%	6.53%	6.55%	8.30%	7.93%	24.44%	0.90%	0.90%	0.63%
BENCHMARK									
ICE BofA U.S. Corporate & High Yield Index	6.06	5.82	5.27	5.48	6.29	11.32	-3.67	-3.67	—

Must be preceded or accompanied by a [prospectus](#). 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 Fund's share price at the end of the 30-day period. The 30-day SEC Yield for the Corporate Credit Fund (CI) is 3.93%.

Risk Disclosure: The value of fixed-income securities varies inversely with interest rates; as interest rates rise, the market value of fixed-income securities will decline. Lower quality debt (i.e.: "High Yield") securities involve greater risk of default or price changes due to potential changes in the issuer's credit quality.

The views expressed are those of the portfolio managers as of March 31, 2021, are subject to change and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice.

The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment 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 data quoted. Investors may obtain performance information current to the most recent month-end, within 7 business days, at [diamond-hill.com](#).

Performance returns assume reinvestment of all distributions. Returns for periods less than one year are not annualized. Class I shares include Investor share performance achieved prior to the creation of Class I shares.

Fund holdings subject to change without notice.

The ICE BofA U.S. Corporate & High Yield Index is comprised of U.S. dollar denominated investment grade and below investment grade corporate debt publicly issued in the U.S. domestic market. The ICE BofA U.S. High Yield Index tracks the performance of the U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. The ICE BofA CCC & Lower U.S. High Yield Index is a subset of the ICE BofA U.S. High Yield Index including all securities rated CCC1 or lower. The ICE BofA BB U.S. High Yield Index is a subset of the ICE BofA U.S. High Yield Index including all securities rated BB1 through BB3, inclusive. The S&P 500 Index is a market capitalization-weighted index focused on the large-cap segment of the market. The index is comprised of 500 of the top companies in leading industries in the U.S. economy. The Russell 2000 Index is an unmanaged market capitalization-weighted index comprised of the smallest 2,000 companies by market capitalization in the Russell 3000 Index, which is comprised of the 3,000 largest U.S. companies by total market capitalization. These indices do not incur fees and expenses (which would lower the return) and are not available for direct investment.

Index data source: London Stock Exchange Group PLC and ICE Data Indices, LLC. See [diamond-hill.com/disclosures](#) for a full copy of the disclaimer. The ICE index data referenced herein is the property of ICE Data Indices, LLC, its affiliates ("ICE Data") and/or its third party suppliers and has been licensed for use by Diamond Hill Capital Management, Inc. ICE Data and its third party suppliers accept no liability in connection with its use.

Analytics provided by The Yield Book[®] Software.

An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other important information about the Fund(s) can be found in the Fund's(s) prospectus or summary prospectus which can be obtained at [diamond-hill.com](#) or by calling 888.226.5595. Please read the prospectus or summary prospectus 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. Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.