Diamond Hill High Yield Fund Commentary

As of March 31, 2021

All Fund returns based on Class I shares.

The Fund generated a 1.71% total return during the first quarter, compared to 0.90% for the ICE BofA U.S. High Yield Index. For the trailing five years, the Fund generated an annualized total return of 10.70% compared to 7.94% for the high yield index.

The 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 17 of 19 industries and the negative selection was de minimis. Although not nearly 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 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 2.93 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 5.94. 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 had less CCC risk and this hurt relative performance during the quarter. However, this was more than offset by a significant underweight to both BBs and duration.

TEAM

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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 3.32, 39 basis points higher than the duration at the beginning of the year. In contrast, the duration of the high yield index increased 38 basis points 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.

In our last commentary, we wrote about the importance of high equity prices and a strong corporate bond new issue market. U.S. 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.

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 high yield corporate bonds.

DIAMOND HILL | FUNDS

PERIOD AND ANNUALIZED TOTAL RETURNS AS OF MARCH 31, 2021

	SINCE INCEPTION (12/4/14)	5-YR	3-YR	1-YR	YTD	1Q21	EXPENSE RATIO
HIGH YIELD FUND							
Class I	8.94%	10.70%	10.29%	30.05%	1.71%	1.71%	0.67%
BENCHMARK							
ICE BofA U.S. High Yield Index	5.87	7.94	6.53	23.31	0.90	0.90	—

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.

The quoted performance for the Fund reflects the past performance of the Diamond Hill High Yield Fund, L.P. (the "High Yield Partnership"), a private fund managed with full investment authority by the fund's Adviser. The Fund is managed in all material respects in a manner equivalent to the management of the predecessor unregistered fund. The performance of the High Yield Partnership has been restated to reflect the net expenses and maximum applicable sales charge of the fund for its initial years of investment operations. The High Yield Partnership was not registered under the Investment Company Act of 1940 and therefore was not subject to certain investment restrictions imposed by the 1940 Act. If the High Yield Partnership had been registered under the 1940 Act, its performance may have been adversely affected. Performance is measured from December 4, 2014, the inception of the High Yield Partnership and is not the performance of the fund. The assets of the High Yield Partnership were converted, based on their value on December 31, 2015, into assets of the fund prior to commencement of operations of the fund. The High Yield Partnership's past performance is not necessarily an indication of how the fund will perform in the future either before or after taxes.

Performance returns assume reinvestment of all distributions. Returns for periods less than one year are not annualized.

Fund holdings subject to change without notice.

The ICE BofA U.S. High Yield Index tracks the performance of 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.