Diamond Hill High Yield Fund Commentary

As of June 30, 2021

All Fund returns based on Class I shares.

TEAM

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The Fund generated a 2.26% total return during the second quarter, compared to 2.77% for the ICE BofA U.S. High Yield Index. Year-to-date, the Fund generated a 4.01% total return compared to 3.70% for the high yield index. For the trailing five years, the Fund generated an annualized total return of 10.28% compared to 7.30% for the index.

The high yield index began the quarter with a yield-to-worst (YTW) of 4.27% and an option-adjusted spread (OAS) of 336 basis points (bps). After generating a 2.77% total return for the quarter, the high yield index ended the quarter with a 3.86% YTW, OAS of 304 bps and an effective duration of 4.

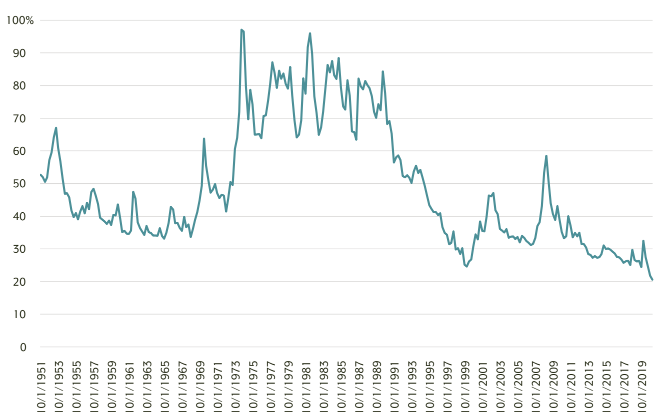
We always want to hold up especially well during down markets and then capture our fair share of up markets. We are pleased with our upside capture since the market bottom on March 23, 2020 particularly when combined with our performance during the down market from the beginning of 2020 though March 23.

With yields and credit spreads at these levels, we are asked how we continue to find opportunities in the high yield market. Before addressing that question, it is important to consider the high yield asset class in the context of a broader opportunity set.

At the end of the quarter, the Inflation Indexed United States 10 Year Government Bond had a yield of -0.88%. Globally, over $13 trillion of the Bloomberg Barclays Global Aggregate Index had a negative nominal yield. So the starting point for investment grade fixed income investors is all too often a negative real yield in the U.S. and a negative nominal yield outside the U.S. And the effective duration of the Bloomberg Barclays Global Aggregate Bond Index is about 7.5. For investors who want a starting yield above expected inflation without undue interest rate risk, the high yield market as represented by the high yield index with a 3.86% yield-to-worst and duration of 4 should be of interest.

Now consider U.S. equities. Since the beginning of 2020 (before the pandemic impacted prices) through the end of Q2 2021, the market value of publicly traded U.S. equities as represented by the Wilshire 5000 Total Market Index has increased over 37% (cumulatively) which is over $12 trillion. Compare this to the market value of the U.S. investment grade and high yield corporate bond markets as represented by the corporate & high yield index which ended the quarter with a market value of about $10.3 trillion. Another way to illustrate this concept over a much longer period of time is shown in Exhibit 1 which shows nonfinancial corporate business debt as a percentage of the market of value of equities going back to 1951. We were at a historic low at the end of the first quarter when the data ends and that is before the 8.42% total return of the Wilshire 5000 Total Market Index in the second quarter.

EXHIBIT 1: NONFINANCIAL CORPORATE BUSINESS DEBT AS A PERCENTAGE OF THE MARKET OF VALUE OF EQUITIES



Source: Federal Reserve Bank of St. Louis, from 9/30/1951 to 3/31/2021.

While the overlap between these equity and corporate bond indices is not perfect it is safe to say that the value of the equity cushion has increased dramatically even from pre-pandemic levels. For corporate bond investors, the value of the "equity cushion" is an important part of the margin of safety. The value of that equity has to be zero or close to zero before the corporate bondholder is permanently impaired. Further, equity is an important source of capital for corporations that can further increase the margin of safety for bondholders.

The Federal Reserve, Congress and the executive branch, as well their counterparts globally, have a lot do with all of this. But the U.S. high yield market as represented by the high yield index is a little over $1.6 trillion while the market value of the Wilshire 5000 Total Market Index is over $45 trillion. While policymakers' direct support of the U.S. credit markets, including the high yield market, is important, the suppression of yields in the investment grade market and the huge increase in value of the equity market are more important factors.

Further, we believe the quality of high yield issuers and their fundamentals have improved dramatically which is why defaults are now below historic averages and we expect them to continue to decline for the foreseeable future.

For all of these reasons, we believe high yield spreads will likely continue to be narrow until there is a material drawdown in equities. We doubt that high yield will be the canary in the coal mine warning of broader dangers in financial markets.

With that backdrop, we follow our standard playbook which is to look for relative values in the high yield market while staying away from the riskiest fringes. Reasonable yield and downside protection rather than price appreciation potential are the most important factors. To that end, we are encouraged by our ability to source defensive high yield bonds better than we have in a number of years. Record levels of high yield issuance and fund outflows have forced many high yield managers to sell bonds to fund new issue purchases. If they want to sell defensive yield-to-call bonds that we like at favorable prices, we are happy to facilitate their desire for liquidity.

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 up markets. We continue to be constructive on high yield bonds, particularly defensive yield-to-call bonds.

Business Update

John was one of three nominees for the 2021 Morningstar Awards for Investing Excellence—Rising Talent. This is the second consecutive year that John was nominated for this award. Every day we have further proof of what I wrote last year: John has a unique combination of intellect, passion and, most importantly, creativity that is perfectly suited to the high yield market. Morningstar said, "McClain has demonstrated a strong ability to execute the approaches of two high-conviction strategies with different mandates and risk profiles."

Bill

PERIOD AND ANNUALIZED TOTAL RETURNS AS OF JUNE 30, 2021

	SINCE INCEPTION (12/4/14)	5-YR	3-YR	1-YR	YTD	2Q21	EXPENSE RATIO
HIGH YIELD FUND							
Class I	8.95%	10.28%	10.62%	17.29%	4.01%	2.26%	0.67%
BENCHMARK							
ICE BofA U.S. High Yield Index	6.08	7.30	7.15	15.62	3.70	2.77	—

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 High Yield Fund (Cl I) is 3.70%.

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 June 30, 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 Bloomberg Barclays Global Aggregate Index measures global investment grade debt from twenty-four local currency markets. Includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers. The Wilshire 5000 Total Market Index (TMWX) is a broad-based market capitalization-weighted index composed of 3,451 publicly traded companies. These indices do not incur fees and expenses (which would lower the return) and are not available for direct investment.

Index data source: Bloomberg Index Services Limited, London Stock Exchange Group PLC and ICE Data Indices, LLC. 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.

Effective duration measures the interest rate risk of the Fund. It is an estimate of the approximate percentage change in the Fund's net asset value resulting from a one percentage point change in interest rates.

Morningstar Rising Talent Award Morningstar presents the Rising Talent Award to an up-and- coming manager in Morningstar's coverage universe. The manager must have less than seven years' tenure managing portfolios and have delivered exceptional results to investors over that span of time. To qualify for the award, the manager's strategy must earn a Morningstar Analyst Rating of Gold, Silver or Bronze, for at least one vehicle and/or share class, or be featured in Morningstar Prospects, a publication highlighting investments that Morningstar analysts are following closely but have not yet received full coverage.

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.