

All Composite returns are net of fees.

The Composite* generated a 0.79% total return during the third quarter, compared to 0.85% for the Bloomberg Barclays U.S. Aggregate Index. Since its inception on July 31, 2016, the Composite has generated a total return of 1.15% compared to -0.10% for the Index. We are pleased with how the strategy has performed on a relative basis, despite short-term underperformance during the most recent quarter. The goal of the Diamond Hill Core Bond strategy is to outperform the Index over a market cycle.

The movement of the fixed income market during the third quarter of 2017 reflects the uncertainty surrounding the gradual economic expansion and geopolitical environment. Despite continued steady job growth and a move below 4.5% in unemployment, inflation remains relatively stagnant and below the 2% target for the U.S. central bank. There were two meetings of the Federal Open Market Committee (FOMC) during the third quarter, and while the language and viewpoints coming out of these meetings were slightly changed, there was no change to the federal funds target rate. The FOMC utilized these meetings to provide clarity around balance sheet normalization and the outlook for the target rate. The market's interpretation of the July meeting resulted in a drop in the possibility of a rate increase before year-end from roughly 50% to lower than 30%. The market outlook for another 2017 rate increase remained in the low-30% range until the September meeting, when the FOMC was quite clear on its desire to increase the federal funds rate by an additional 25 basis points by year-end. Throughout both third-quarter meetings, the FOMC said balance sheet normalization would begin in October, with no deviation in the details of the normalization.

The volatility around the market's interpretation of the FOMC meetings is clearly reflected in the movement of the 10-year Treasury during the quarter. The 10-year Treasury yield started the quarter at 2.30% and climbed to 2.39% in early July, then fell as low as 2.04% in early September as investors sought the safety of government debt as tensions escalated between the U.S. and North Korea. Following the Fed's comments about an additional rate increase this year, the 10-year Treasury yield rebounded to 2.33% to close the quarter, resulting in the first quarterly gain of 2017.

The strategy's duration has been maintained within our targeted range of +/- 10% of the benchmark's duration. At the end of the third quarter, the strategy's duration was roughly 88% of the benchmark's duration (5.22 versus 5.96), reflecting the long-term

PORTFOLIO MANAGEMENT



Henry Song, CFA
Portfolio Manager



Mark Jackson, CFA
Portfolio Manager

viewpoint that interest rates have a greater chance of moving higher over the coming months and quarters. During the quarter, the duration of the benchmark remained relatively unchanged, from 6.01 to 5.96, while the duration of the strategy shortened (5.41 to 5.22) as a result of a more defensive position. The strategy's overall shorter duration positioning relative to the benchmark minimally contributed to performance during the quarter.

The investment grade corporate sector of the Index generated a return of 1.34% during the third quarter, building on a strong first half of the year. The strategy's underweight allocation to investment grade corporate, as well as sector allocation within the space, detracted from relative performance. Industrials detracted the most during the quarter from a relative standpoint as this segment of the market rallied and the portfolio maintains an underweight position. Utilities slightly detracted from performance on a relative basis.

The sector with the most substantial impact on the strategy during the quarter was the securitized sector, with strong security selection and sector positioning driving the majority of absolute return. Continued demand in the marketplace drove spreads tighter across the entire sector and was met with heavy issuance. Within the securitized sector, asset-backed securities and commercial mortgage-backed securities were the strongest contributors to the strategy's performance as spreads tightened due to high demand. However, this was offset by an underweight allocation to agency mortgage-backed securities, corporate credit, and Treasury. With agency mortgage-backed securities still under pressure from the Fed's involvement in the marketplace, this sector remains rich and unattractive relative to other securitized assets.

The strategy continues to search for opportunities in the marketplace while maintaining a conservative risk profile relative to the index.



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PERIOD & ANNUALIZED RETURNS (%)

Inception Date: July 31, 2016

	TRAILING				CALENDAR
	SINCE INCEPTION	1-YR	YTD	3Q17	7-31/16 - 12/31/16
SELECT COMPOSITE					
Gross of Fees	1.50	1.09	4.05	0.87	-2.45
Net of Fees	1.15	0.78	3.80	0.79	-2.56
BENCHMARKS					
Bloomberg Barclays U.S. Aggregate Index	-0.10	0.07	3.14	0.85	-3.14

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. Diamond Hill has been independently verified for the period 5/31/00 – 6/30/17. Diamond Hill'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. Diamond Hill is a registered investment adviser and wholly owned subsidiary of Diamond Hill Investment Group, Inc. Diamond Hill provides investment management services to individuals and institutional investors through mutual funds, separate accounts, exchange traded funds and private investment funds. 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 Core Bond Composite is comprised of discretionary non-fee and fee paying non-wrap accounts with a market value over \$10M managed according to the firm's Core Bond fixed income strategy. The strategy's investment objective is to maximize total return with the preservation of capital by investing in a diversified portfolio of intermediate and long-term debt securities. The portfolio generally invests at least 80% of its assets in a diversified portfolio of investment grade, fixed income securities and may invest a significant portion or all of its assets in mortgage-related and mortgage-backed securities. The portfolio will typically maintain an average portfolio duration within 20% of the duration of the Bloomberg Barclays U.S. Aggregate Index. 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 Diamond Hill Capital Management, Inc. (the "Adviser"). 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. Aggregate Index is an unmanaged index representing the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through, and asset-backed securities. 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 Core Bond separate accounts is as follows: First \$50,000,000 = 0.29%; Next \$50,000,000 = 0.22%; Balance = 0.18%. 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.** It should not be assumed that an investment in the securities identified was or will be profitable. The holdings identified do not represent all of the securities purchased, sold, or recommended for the adviser's clients. To obtain the contribution calculation methodology and a

complete list of every holding's contribution to the overall portfolio's performance during the measurement period, please contact 855.255.8955 or info@diamond-hill.com. The Global Investment Performance Standards are a trademark of CFA Institute. CFA Institute has not been involved in the preparation or review of this report/advertisement.

AS OF YEAR-END	DHCM	CORE BOND COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)	
		Assets Under Management	Number of Accounts	Assets Under Management (Gross of Fees)	Core Bond Composite	Bloomberg Barclays U.S. Aggregate Index
2016	\$19.4B	5 or fewer	\$39.7M	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.