

All Composite returns are net of fees.

The Composite* generated a 1.56% total return during the third quarter, compared to 1.47% for the Bank of America Merrill Lynch U.S. Corporate & High Yield Index. Year to date, the Composite generated a total return of 6.86% compared to 5.59% for the Corporate & High Yield Index. For the trailing five years, the Composite generated an annualized total return of 6.14% compared to 4.06% for the Corporate & High Yield Index.

Unlike most corporate bond strategies, the Diamond Hill Corporate Credit strategy is not managed against any index. Instead, it is managed against absolute objectives of (1) inflation plus 3% and (2) 7% nominal, each measured over rolling five-year periods. Our goal is to achieve these objectives while minimizing the risk of downside volatility over longer time periods. Although the strategy's investable universe (and the Corporate & High Yield Index) includes both investment grade and high yield corporate bonds, since early 2010 the strategy has been largely focused on the high yield portion of the market to achieve these objectives. About 88% of the strategy was in high yield corporate bonds at the end of the third quarter.

The high yield portion of the U.S. corporate bond market, as represented by the Bank of America Merrill Lynch U.S. High Yield Index, began the quarter with a yield to worst (YTW) of 5.68% and option-adjusted spread of 377 basis points. At the end of the third quarter, the YTW was 5.47% and the option-adjusted spread was 356 basis points. The Composite's YTW is typically somewhere in the range of our absolute objectives, although it was well below the low end of the range on June 30, 2014 (near the most recent peak of the high yield market) and well above the high end of the range on February 11, 2016 (the most recent bottom of the high yield market). The Composite's YTW began the quarter at 4.59% and ended the quarter marginally higher at 4.62%. The Composite's duration was 2.85, in the middle of its typical 2.0-3.5 range, but well below the High Yield Index duration of 3.93 and the Corporate & High Yield Index duration of 6.69.

The high yield asset class continues to perform better than many expected in 2017, still buttressed by the strength of equities on one end of the spectrum and core U.S. fixed income on the other. In addition, the high yield default rate is well below the historical average. While the timing is difficult to forecast, the high yield market is prone to bouts of volatility and illiquidity. An important part of the Composite's strategy is to be in a strong position to take advantage of volatility and illiquidity which lead to favorable pricing of high yield bonds for investors with a long-term time horizon.



PORTFOLIO MANAGEMENT



Bill Zox, CFA
Portfolio Manager



John McClain, CFA
Portfolio Manager



Suken Patel, CFA
Asst. Portfolio Manager

The strategy's turnover was elevated for two reasons. First, we turned over a large portion of the portfolio during the second half of last year to utilize expiring capital loss carryforwards. Second, we are in a low yield and spread environment for high yield bonds. As a result, the discount to intrinsic value of the bonds we hold are smaller than normal, but we are adhering to our sell discipline when bonds reach our estimate of intrinsic value. The market is not differentiating as much between stronger and weaker credits, so we have been able to meaningfully improve our downside protection at little expense to our upside capture.

One of our important advantages is our commitment to being nimble in the secondary corporate bond market and selective in the new-issue market. Demonstrating our selectivity in the new-issue market, so far in 2017 we have participated in 19 out of 392 high yield new issues (or about 5%). Issuers, rather than investors, have had the upper hand in the new-issue market since February 2016, so it has been especially important that we do not rely on the new-issue market to take meaningful positions for the Composite.

Alliance Data Systems Corp. 5.375% due 2022 was the top contributor to performance during the quarter. Alliance Data Systems has strong marketing and customer loyalty businesses as well as a highly profitable bank supporting its private label credit card business. While operating performance has been inconsistent in recent years, growth and cash flow generation are still strong and there is a large cushion in the value of the overall business relative to the bonds outstanding.

For the third straight quarter, **Conduent Finance, Inc. 10.5% due 2024** was one of the top contributors to performance. Conduent benefits from its high coupon and reasonable valuation. Since being spun out of Xerox at the end of 2016, Conduent has made progress on margin improvement and free cash flow generation.

Kindred Healthcare, Inc. 8.75% due 2023 was the largest detractor to performance during the quarter. Kindred suffered from a proposal for 2019 home health reimbursement that we believe is very unlikely to prevail and was impacted by the hurricanes in Texas and Florida. We are encouraged by the progress on the sale of the skilled nursing facilities but are looking for continued progress on compliance with the new long-term acute care criteria.

*Investments discussed are based on a representative portfolio and there is no assurance that Diamond Hill will make investments in a new client's portfolio with the same or similar characteristics as the representative portfolio presented. The representative portfolio is presented for discussion purposes only and is not a reliable indicator of the performance or investment profile of the Composite.

Frontier Communications Corp. 11.0% due 2025 was again one of the largest detractors to performance during the quarter. Investors continue to be concerned with Frontier's competitive position and ability to reduce leverage. We believe there is sufficient free cash flow generation to give the company time to compete more effectively and stabilize its subscriber metrics.

Selected New and Eliminated Positions

We purchased **Hub International Ltd. 7.875% due 2021** which is currently callable and we view as a defensive bond.

We purchased or added to a number of new issues that we felt were attractively priced including **Southwestern Energy Co. 7.5% due 2026, Landry's, Inc. 6.75% due 2024, CB Escrow Corp. (Cincinnati Bell) 8.0% due 2025, Pilgrim's Pride Corp. 5.875% due 2027, Pilgrim's Pride Corp. 5.75% due 2025, iStar, Inc. 4.625% due 2020, and Arch Merger Sub, Inc. (Staples) 8.5% due 2025.**

We purchased or added to a number of bonds that traded lower on idiosyncratic issues allowing us to purchase at a discount to intrinsic value. These included **L Brands, Inc. 6.75% due 2036, iStar, Inc. 6.0% due 2022, Diamondback Energy, Inc. 5.375% due 2025, Mobile Mini, Inc. 5.875% due 2024, DaVita, Inc. 5.125% due 2024, Urban One, Inc. 7.375% due 2022, and Diebold Nixdorf, Inc. 8.5% due 2024.**

Finally, we swapped **Frontier Communications Corp. 11.0% due 2025** into **Frontier Communications Corp. 10.5% due 2022**. The compensation for the longer maturity was not adequate so we reduced the risk of our position with the shorter maturity.

As the market continued to move higher, we had a number of bonds reach our estimate of intrinsic value. These include **AssuredPartners, Inc. 7.0% due 2025, Parsley Energy LLC 5.375% due 2025, Men's Wearhouse, Inc. (Tailored Brands) 7.0% due 2022, Springleaf Finance Corp. 7.75% due 2021, Bioscrip, Inc. 8.875% due 2021, Avis Budget Car Rental LLC 6.375% due 2024, Wex, Inc. 4.75% due 2023, Nationstar Capital Corp. 6.5% due 2021, Quad Graphics, Inc. 7.0% due 2022, American Airlines, Inc. 5.625% due 2021, and US Airways 2013-1 (CI A) 5.375% due 2021.**

We had a number of bonds called or tendered during the quarter including **Cemex Finance LLC 9.375% due 2022, Ashtead Capital, Inc. 6.5% due 2022, and Clubcorp Club Operations, Inc. 8.25% due 2023.**

TOP 5 CONTRIBUTORS

SECURITY NAME	3Q17 CONTRIBUTION	POSITION AS OF 3Q17
Alliance Data Systems Corp. 5.375% due 2022	0.17%	4.9%
Conduent Finance, Inc. 10.5% due 2024	0.12	3.4
Nationstar Mortgage LLC 9.625% due 2019	0.09	3.3
Century Communities, Inc. 6.875% due 2022	0.09	3.9
Cimpress N.V 7.0% due 2022	0.09	4.5

TOP 5 DETRACTORS

SECURITY NAME	3Q17 CONTRIBUTION	POSITION AS OF 3Q17
Kindred Healthcare Corp. 8.75% due 2023	-0.13%	1.6%
Frontier Communications Corp. 11.0% due 2025	-0.10	0.0
Cincinnati Bell, Inc. 7.0% due 2024	-0.09	2.4
Arch Merger Sub, Inc. (Staples) 8.5% due 2025	-0.03	2.3
Popular, Inc. 7.0% due 2019	-0.03	5.8

Diamond Hill Corporate Credit Strategy

As of September 30, 2017

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: September 30, 2002

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	3Q17
CORPORATE CREDIT COMPOSITE							
Gross of Fees	7.83	6.49	6.63	7.56	8.37	7.20	1.66
Net of Fees	7.32	5.98	6.14	7.08	7.91	6.86	1.56
BENCHMARKS							
BofA ML U.S. Corporate & High Yield Index	6.29	6.03	4.06	4.30	3.43	5.59	1.47
BofA ML U.S. High Yield Index	9.29	7.72	6.38	5.86	9.04	7.03	2.02

CALENDAR YEAR RETURNS (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CORPORATE CREDIT COMPOSITE										
Gross of Fees	-5.24	-16.55	30.78	14.52	6.30	10.65	6.12	3.17	2.18	12.90
Net of Fees	-5.69	-16.96	30.09	13.96	5.78	10.11	5.60	2.65	1.72	12.40
BENCHMARKS										
BofA ML U.S. Corporate & High Yield Index	4.09	-10.93	26.00	10.76	6.80	11.37	0.34	6.43	-1.37	7.97
BofA ML U.S. High Yield Index	2.19	-26.39	57.51	15.19	4.38	15.58	7.42	2.50	-4.64	17.49

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 Corporate Credit Composite is comprised of discretionary fee paying non-wrap accounts with a market value over \$10M managed according to the firm's Corporate Credit fixed income strategy. The strategy's investment objective is to provide an attractive cash distribution and total return greater than the current rate of inflation, while minimizing the risk of a current loss of capital over a five-year time horizon. The strategy generally invests in investment grade and below-investment grade (high yield) corporate bonds and will typically maintain an effective duration less than five. 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 BofA Merrill Lynch U.S. Corporate & High Yield Index is the primary benchmark. This 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 BofA Merrill Lynch U.S. High Yield Index is shown as additional information. This index is comprised of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. Ratings are based on an average of Moody's, S&P and Fitch. 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 Corporate Credit separate accounts is as follows: First \$50,000,000 = 0.55%; Over \$50,000,000 = 0.45%. 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	CORPORATE CREDIT COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Corporate Credit Composite	BofA ML U.S. Corporate & High Yield Index
2016	\$19.4B	5 or fewer	\$533.5M	NA	3.96%	3.93%	6.03%
2015	16.8B	5 or fewer	299.0M	NA	2.91	3.82	5.27
2014	15.7B	5 or fewer	220.0M	NA	2.37	3.79	4.44
2013	12.2B	5 or fewer	186.7M	NA	3.32	4.34	6.42
2012	9.4B	5 or fewer	178.4M	NA	3.80	4.00	7.03
2011	8.7B	5 or fewer	146.0M	NA	7.10	5.73	11.00
2010	8.6B	5 or fewer	145.8M	NA	NA	NA	NA
2009	6.3B	5 or fewer	127.6M	NA	NA	NA	NA
2008	4.5B	5 or fewer	112.8M	NA	NA	NA	NA
2007	4.4B	5 or fewer	206.1M	NA	NA	NA	NA

NA = Not Applicable

This composite was created in April 2015.

**Global Investment
Performance Standards**