

# High Yield Composite

As of December 31, 2017



## OBJECTIVE

High current income with the opportunity for capital appreciation.

## INVESTMENT STRATEGY

- Our primary focus is on evaluating the underlying business fundamentals and credit risk of high yield securities.
- Securities are purchased when we believe the yield and total return potential are attractive relative to asset and interest coverage and relative to other securities with comparable risk.
- We are prepared to hold securities to maturity or until they are called. However, securities may be sold when price reaches our estimate of value, to raise proceeds for a more attractive opportunity or if the underlying fundamentals deteriorate.

## PORTFOLIO MANAGEMENT



Bill Zox, CFA  
Portfolio Manager



John McClain, CFA  
Portfolio Manager



Suken Patel, CFA  
Asst. Portfolio Manager

## PORTFOLIO GUIDELINES

The portfolio generally invests at least 80% of its net assets in a diversified portfolio of corporate debt securities that are rated below investment grade or are unrated.

## TOP TEN ISSUES

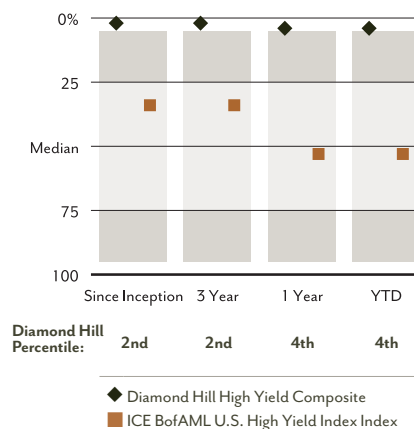
<b>Energen Corp.</b>	7.13%	02/15/28	8.8%
<b>Popular, Inc.</b>	7.00%	07/01/19	6.3
<b>Cimpress N.V.</b>	7.00%	04/01/22	4.3
<b>Alliance Data Systems Corp.</b>	5.38%	08/01/22	3.5
<b>Arch Merger Sub, Inc.</b>	8.50%	09/15/25	3.4
<b>Welltec A/S</b>	9.50%	12/01/22	3.3
<b>Nationstar Mortgage/Capital Corp.</b>	9.63%	05/01/19	2.6
<b>Conduent, Inc.</b>	10.50%	12/15/24	2.6
<b>Century Communities, Inc.</b>	5.88%	07/15/25	2.5
<b>Nationstar Mortgage/Capital Corp.</b>	6.50%	06/01/22	2.4
<b>Total as % of Net Assets</b>			<b>39.7%</b>

## SECTOR ALLOCATION

	HIGH YIELD COMPOSITE	ICE BOFAML U.S. HIGH YIELD INDEX <sup>1</sup>
<b>Corporate Bonds</b>	<b>89.5%</b>	<b>100.0%</b>
Financial Services	18.3	3.9
Energy	14.2	14.3
Retail	7.8	4.8
Basic Industry	7.5	12.2
Media	6.9	11.4
Banking	6.3	3.3
Telecom	5.7	9.2
Consumer Goods	5.5	2.8
Healthcare	5.3	10.2
Leisure	3.1	4.2
Real Estate	2.6	0.8
Technology & Electronics	2.6	5.9
Services	1.9	5.4
Transportation	1.0	0.9
Insurance	0.9	1.0
Capital Goods	0.0	5.2
Utility	0.0	2.5
Automotive	0.0	2.1
<b>Securitized</b>	<b>7.1</b>	<b>0.0</b>
<b>Cash &amp; Other<sup>2</sup></b>	<b>3.3</b>	<b>0.0</b>

<sup>2</sup> Cash & Other may include cash, treasuries, money market funds, and short duration fixed income funds.

## PEER GROUP QUARTILE RANKINGS<sup>3</sup>



<sup>3</sup> Source: eVestment Analytics. Ranking within eVestment U.S. High Yield Fixed Income universe based on monthly returns gross of fees. Ranking data calculated on 1/18/2018 (as of 12/31/17) and is subject to change as additional firms within the category submit data.

## PERIOD AND AVERAGE ANNUAL TOTAL RETURNS

Inception Date: December 31, 2014

	SINCE INCEPTION	3-YR	1-YR	YTD	4Q17
<b>HIGH YIELD COMPOSITE</b>					
<b>Gross of Fees</b>	9.01	9.01	11.12	11.12	1.66
<b>Net of Fees</b>	8.65	8.65	10.58	10.58	1.54
<b>BENCHMARK</b>					
<b>ICE BofAML U.S. High Yield Index</b>	6.39	6.39	7.48	7.48	0.41

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Side One. Not Valid Without Side Two.

**CREDIT QUALITY**

QUALITY RATING	% OF PORTFOLIO
<b>Investment Grade<sup>4</sup></b>	4.6%
<b>BB</b>	32.7
<b>B</b>	51.2
<b>CCC &amp; Below</b>	3.8
<b>Not Rated</b>	7.8

<sup>4</sup> Investment Grade is a Bond Quality Rating of AAA, AA, A, or BBB. Security quality ratings are derived from underlying portfolio securities by using the middle rating of Standard & Poor's, Moody's, and Fitch. If only two of Standard & Poor's, Moody's, and Fitch rates a security the higher of the two is selected. If only one of Standard & Poor's, Moody's, and Fitch rates a security the available rating is used. For securities that are not rated by Standard & Poor's, Moody's, or Fitch a rating from a secondary Nationally Recognized Statistical Rating Organization ("NRSRO") may be used. Ratings by any agency represent an opinion only, not a recommendation to buy or sell. Securities that are not rated by any agencies are reflected as Not Rated "NR".

**PORTFOLIO CHARACTERISTICS**

Number of Issues	70
Number of Issuers	64
Option-Adjusted Spread	386
Effective Duration	3.59
Spread Duration	3.46
Weighted Average Maturity (bonds only)	6.79
Yield to Maturity (%)	6.46
Current Yield (%)	6.46

**SINCE INCEPTION RISK STATISTICS<sup>5</sup>**

Standard Deviation (%)	5.22
Beta (%) <sup>6</sup>	0.87
Sharpe Ratio	1.65

<sup>5</sup> Source: eVestment Analytics.

<sup>6</sup> Relative to the ICE BofAML U.S. High Yield Index.

**CALENDAR YEAR RETURNS (%)**

	2015	2016	2017
<b>HIGH YIELD COMPOSITE</b>			
Gross of Fees	1.02	15.40	11.12
Net of Fees	1.02	14.82	10.58
<b>BENCHMARKS</b>			
ICE BofAML U.S. High Yield Index	-4.64	17.49	7.48

<sup>1</sup> ICE BofAML is licensing the ICE BofAML indices "as is," makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE BofAML indices or any data included in, related to, or derived therefrom, assumes no liability in connection with their use, and does not sponsor, endorse, or recommend Diamond Hill Capital Management, Inc., or any of its products or services.

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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.** 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	HIGH YIELD COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)	
		Assets Under Management	Number of Accounts	Assets Under Management (Gross of Fees)	High Yield Composite	ICE BofAML U.S. High Yield Index
2017	\$22.3B	5 or fewer	\$31.1M	NA <sup>7</sup>	5.15%	5.60%
2016	19.4B	5 or fewer	31.9M	NA <sup>7</sup>	NA <sup>8</sup>	NA <sup>8</sup>
2015	16.8B	5 or fewer	10.1M	NA <sup>7</sup>	NA <sup>8</sup>	NA <sup>8</sup>

<sup>7</sup> NA = Not Applicable

<sup>8</sup> Statistics are not presented because 36 monthly returns are not available. This composite was created in January 2016.

Side Two. Not Valid Without Side One.