

All Composite returns are net of fees.

The Composite generated a 0.51% total return during the fourth quarter, compared to 0.39% for the Bloomberg Barclays U.S. Aggregate Index. Since its inception on July 31, 2016, the Composite has generated an annualized total return of 1.17% compared to 0.29% for the Index. We are pleased with how the strategy has performed on a relative basis, both in the most recent quarter and since its inception. The goal of the Diamond Hill Core Bond strategy is to outperform the Index over a market cycle.

The themes of 2017 in the fixed income markets continued throughout the final quarter of the year. The market has been focused on the Federal Open Market Committee (FOMC) and its plans for interest rates, which increased by 25 basis points in December. Given the transparency of the FOMC, the rate increase was digested with limited volatility by the market and the focus shifted to future rate increases and the “dot plot.” The dot plot, part of the FOMC’s Summary of Economic Projections released along with its policy decision statement, shows where each member thinks the federal funds rate should be for each of the next few years and longer term. The median for year-end 2018 was between 2% and 2.25%, suggesting three rate hikes next year. Over the longer term, the members expect the rate to settle around 2.75%. At the same meeting, the FOMC made the decision to increase the level at which principal payments from its holdings will be reinvested from \$10 billion (\$6 billion of Treasury securities and \$4 billion of agency debt and agency mortgage-backed securities) to \$20 billion (\$12 billion Treasury, \$8 billion agency debt and agency mortgage-backed securities). This increase will take place in January 2018.

The story in the Treasury market in 2017 was the flattening of the yield curve. This trend continued in the fourth quarter as the shorter end of the curve climbed and the longer end of the curve contracted. Specifically, the yield on the one-year and two-year Treasuries moved higher by 44 basis points and 40 basis points, respectively, while the yield on the 30-year Treasury dropped 12 basis points. This movement resulted in strong performance on the longer end, with the 30-year Treasury the only part of the yield curve to have a positive return in the quarter (+3.00%). The Treasury segment of the Bloomberg Barclays U.S. Aggregate Index returned only 0.05% during the fourth quarter but finished the year up 2.31%.

PORTFOLIO MANAGEMENT



Henry Song, CFA
Portfolio Manager



Mark Jackson, CFA
Portfolio Manager

The Core Bond strategy’s duration has been maintained within our targeted range of +/-10% of the benchmark’s duration. At the end of the fourth quarter, the strategy’s duration was roughly 88% of the benchmark’s duration (5.25 versus 5.98, respectively), reflecting the long-term viewpoint that interest rates have a greater chance of moving higher over the coming months and quarters. During the quarter, the duration of both the strategy and the benchmark remained relatively unchanged (from 5.22 to 5.25 for the strategy; from 5.96 to 5.98 for the benchmark). The strategy’s overall shorter duration positioning relative to the benchmark minimally contributed to performance during the quarter.

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. Agency mortgage-backed securities were roughly in line with the mortgages represented in the benchmark, with the strategy’s slightly longer duration in mortgage-backed securities contributing to returns and offsetting the impact of its underweight position relative to the benchmark.

The investment grade corporate sector of the Bloomberg Barclays U.S. Aggregate Index generated a return of 1.17% during the fourth quarter, pushing the 2017 calendar year performance to 6.42%. 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 delivered the strongest performance of the sector and the portfolio maintains an underweight position. Utilities slightly detracted from performance on a relative basis.

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



PERIOD & ANNUALIZED RETURNS (%)

Inception Date: July 31, 2016

	TRAILING				CALENDAR	
	SINCE INCEPTION	1-YR	YTD	4Q17	7-31/16 - 12/31/16	2017
SELECT COMPOSITE						
Gross of Fees	1.46	4.64	4.64	0.57	-2.45	4.64
Net of Fees	1.17	4.33	4.33	0.51	-2.56	4.33
BENCHMARKS						
Bloomberg Barclays U.S. Aggregate Index	0.20	3.54	3.54	0.39	-3.14	3.54

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 – 9/30/17. 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,

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
2017	\$22.3B	5 or fewer	\$43.8M	NA ¹	NA ²	NA ²
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.