Diamond Hill Core Bond Fund Commentary

As of December 31, 2017

All Fund returns based on Class I shares.

The Fund generated a 0.47% total return during the fourth quarter, compared to 0.39% for the Bloomberg Barclays U.S. Aggregate Index. Since its inception on July 5, 2016, the Fund has generated an annualized total return of 1.29% compared to 0.15% for the Index. We are pleased with how the Fund has performed on a relative basis, both in the most recent quarter and since its inception. The goal of the Diamond Hill Core Bond Fund 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 Fund's duration has been maintained within our targeted range of +/-10% of the benchmark's duration. At the end of the fourth quarter, the Fund'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 Fund and the benchmark remained relatively unchanged (from 5.22 to 5.25 for the Fund; from 5.96 to 5.98 for the benchmark). The Fund'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 Fund 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 Fund'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 Fund'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 Fund'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 Fund continues to search for opportunities in the marketplace while maintaining a conservative risk profile relative to the Index.

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PERIOD AND AVERAGE ANNUAL TOTAL RETURNS AS OF DECEMBER 31, 2017

	SINCE INCEPTION (7/5/16)	1-YR	YTD	4Q17	EXPENSE RATIO GROSS	EXPENSE RATIO NET
RETURNS AT NAV (WITHOUT SALES CHARGE)						
Class A	0.99%	3.85%	3.85%	0.39%	0.78%	0.78%
Class I	1.29	4.17	4.17	0.47	0.48	0.48
Class Y	1.35	4.22	4.22	0.48	0.38	0.38
BENCHMARK						
Bloomberg Barclays U.S. Aggregate Index	0.15	3.54	3.54	0.39	—	—
RETURNS AT POP (WITH SALES CHARGE)						
Class A	-1.38	0.24	0.24	-3.15	0.78	0.78

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 (ie: "High Yield") securities involve greater risk of default or price changes due to potential changes in the issuer's credit quality. The value of investments in mortgage-related and asset-backed securities will be influenced by the factors affecting the housing market and the assets underlying such securities. The securities may decline in value, face valuation difficulties, become more volatile and/or become illiquid. They are also subject to prepayment risk, which occurs when mortgage holders refinance or otherwise repay their loans sooner than expected, creating an early return of principal to holders of the loans.

The views expressed are those of the portfolio managers as of December 31, 2017, 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.*

Performance returns assume reinvestment of all distributions. Returns for periods less than one year are not annualized. The returns at POP reflect the maximum sales charge applicable to each class. The maximum sales charge for A shares is 3.50%; I shares and Y shares have no sales charge.

Fund holdings subject to change without notice.

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. The Bloomberg Barclays U.S. Corporate Index is an unmanaged index measuring the investment grade, fixed-rate, taxable corporate bond market. It includes USD Denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers. These indices do not incur fees and expenses (which would lower the return) and are not available for direct investment.

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 BHIL Distributors, 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.