Diamond Hill High Yield Strategy

As of December 31, 2017

All Composite returns are net of fees.

The Composite* generated a 1.54% total return during the fourth quarter compared to 0.41% for the ICE Bank of America Merrill Lynch U.S. High Yield Index. For the full-year 2017, the Composite generated a total return of 10.58% compared to 7.48% for the High Yield Index. Since inception on December 31, 2014, the Composite generated an annualized total return of 8.65% compared to 6.39% for the High Yield Index.

While we are pleased with the High Yield strategy's relative performance, it is important to note that the High Yield Index is not an investable alternative. Over a five-year time horizon, performance relative to peers will be the best metric to evaluate the strategy. We discuss high yield indices, investable passive alternatives and active management in "Debunking the High Yield Index and High Yield ETFs," available at www.diamond-hill.com/debunking-high-yield-index-high-yield-etfs/.

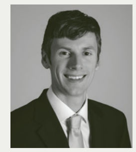
The High Yield Index began the year with a yield to worst (YTW) of 6.17% and option-adjusted spread (OAS) of 422 basis points. At the end of the third quarter, the YTW was 5.47% and OAS was 356 basis points. At the end of the year, the YTW was 5.84% and the OAS was 363 basis points.

With both investment grade fixed income and equities generating strong returns in 2017, it is not surprising that high yield also performed well. High yield benefited from a default rate that declined materially during the year to a level below half the historic average. Like most other major asset classes, volatility in the high yield market was muted during 2017. The most notable bout of volatility, which may have been imperceptible to non-specialists, lasted from October 24 to November 15, when the OAS of the High Yield Index widened about 60 basis points due primarily to weakness in the telecom and cable industries. As soon as the YTW hit 6% on November 15, the High Yield Index rebounded and more than half of the spread widening was reversed by the end of the year. From October 24 through year-end, the High Yield Index was just slightly negative at -14 basis points. The strategy performed well during this minor test, generating a total return of 89 basis points. It helped that we look very different than the market and that a large position in **Bankrate, Inc. 6.125% due 2018** was called, putting us in a strong position to take advantage of some opportunities including one particularly attractive new issue discussed below, **Welltec A/S 9.5% due 2022**.

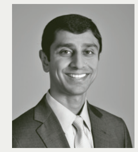
The high yield market is priced for continued low defaults and muted volatility. Because we have a five-year time horizon, we have no incentive to chase an overvalued market. This advantage was very apparent in 2015 and we expect that it will serve us well when volatility comes back to the high yield market. In the meantime, we continue to work closely with the deep and talented Diamond Hill research team, and we have the conviction to concentrate in our best ideas even if they are low weightings in any high yield index. We are also selective participants in the high yield new issue market, participating in approximately 5% of new issues in 2017. We never want to grow so large that we become reliant on the new issue market to put the strategy's capital to work, but we are always ready to make meaningful commitments if we like the price and the credit.

PORTFOLIO MANAGEMENT

Bill Zox, CFA
Portfolio Manager



John McClain, CFA
Portfolio Manager



Suken Patel, CFA
Asst. Portfolio Manager

The largest contributor to performance during the quarter was **Kindred Healthcare, Inc. 8.75% due 2023**, reversing its place as the largest detractor during the third quarter. In December, U.S. health insurer Humana and two private-equity firms announced an agreement to acquire Kindred, reflecting the long-term value that we saw in Kindred's assets. We expect that the bonds will be called in conjunction with the closing, which is expected in Summer 2018.

Energen Corp. 7.125% due 2028 was the second-largest contributor to performance during the quarter. This bond is the strategy's largest position and has benefited from both strong operational performance and takeover speculation as activist hedge funds have taken meaningful stakes in the company. If a takeover were to occur, we believe our bonds would be made whole as is contractually stipulated if the company decided to redeem the bonds. The make-whole price is dependent on when this would occur and the price of the appropriate Treasury bond. Currently, the make-whole price is substantially higher than market price of the bonds. We believe that Energen is an undervalued credit and the bond structure is also extraordinarily attractive.

Popular, Inc. 7.0% due 2019 was the third-largest contributor to performance during the quarter. We added materially to our already-large position after the hurricanes. Popular has abundant excess capital and earnings power to handle its hurricane related losses and it will be a beneficiary of the rebuilding efforts in coming years.

DIAMOND HILL CAPITAL MANAGEMENT

*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. 10.5% due 2022 was the largest detractor during the quarter. Frontier continues to realize synergies from its acquisition of Verizon assets and customer losses have shown some improvement, but the progress has not been enough to reverse very pessimistic market expectations. We continue to believe that Frontier will generate sufficient free cash flow to give it time to stabilize its business.

Arch Merger Sub, Inc. (Staples) 8.5% due 2025, which was a new issue during the third quarter, was the second-largest detractor during the fourth quarter. These bonds are backed solely by the wholesale operations of Staples which was taken private at the end of the second quarter. Staples has a leading position in a highly fragmented market and free cash flow is strong relative to debt. Confusion about the Staples retail stores, which do not back these bonds, and concerns about potential Amazon competition caused the bonds to sell off to very attractive levels.

Alliance Data Systems Corp. 5.375% due 2022 was the third-largest detractor during the quarter after being one of the largest contributors to performance earlier in the year. The credit quality of the private label credit card portfolio is stabilizing. The weakness during the quarter was just typical high yield volatility rather than a reflection on the fundamentals of the company.

Selected New and Eliminated Positions

One large new addition was **Welltec A/S 9.5% due 2022**, which was a new issue that was marketed towards the end of the October-November bout of volatility. Welltec is a high quality but cyclical oil service business that has a variable cost structure that allows it to protect cash flow even in a depressed environment. Other new issues added to the portfolio included **Nathan's Famous, Inc. 6.625% due 2025, Freedom Mortgage Corp. 8.125% due 2024, Mattel, Inc. 6.75% due 2025, and Cooke Omega Investments, Inc. 8.5% due 2022.**

We swapped **Frontier Communications Corp. 10.5% due 2022** for **Frontier Communications Corp. 9.25% due 2021**. Frontier has bought back a small amount of the 2021 bonds, which was a much smaller issue than the 2022 bonds, so we reduced the risk of our Frontier exposure.

We added **Treehouse Foods, Inc. 6.0% due 2024** after very poor third-quarter earnings and a weak outlook. Treehouse faces significant issues but leverage is low and free cash flow generation is high relative to debt. Our research team follows the company closely and we were in a strong position to take advantage of what we believe was an overreaction in the bond market.

We added **Rite Aid Corp. 9.25% due 2020**. We feel confident these bonds will be called with the proceeds from the sale of certain stores to Walgreens.

Existing holding Altice SA 7.75% due 2022 was weak during the quarter after poor performance of its cable and telecom assets in France and Portugal caused a steep decline in Altice equity. On a positive notes, the equity market is forcing management to focus on deleveraging and operational improvement rather than more debt-financed acquisitions. We added **Altice SA 8.125% due 2024** which is in a safer part of the Altice capital structure.

We also added two asset-backed securities during the quarter, **CIGAR 1017-1A C 5.33% due 2024** and **APF 2017-A C 5.82% due 2029.**

Bankrate, Inc. 6.125% due 2018 and **Station Casinos LLC 7.5% due 2021** were called during the quarter.

We extended our position in **Cincinnati Bell** by swapping the **7.0% due 2024** for the **8.0% due 2025**. The weakness in the bonds had far more to do with problems elsewhere in the telecom sector than the company's fundamental outlook, so we decided to take advantage of attractive pricing.

Drivetime Automotive Group, Inc. 8.0% due 2021, Horizon Pharma, Inc. 8.75% due 2024, Southwestern Energy Co. 7.5% due 2026, and **KABB 2017-1C 8.0% due 2022** were all eliminated as price approached our estimate of intrinsic value.

Ardonagh Midco PLC 8.625% due 2023, Ritchie Bros. Auctioneers, Inc. 5.375% due 2025, and **Tesco PLC 6.15% due 2037** were eliminated in favor of opportunities that were more appropriate for our strategy.

TOP 5 CONTRIBUTORS

SECURITY NAME	4Q17 CONTRIBUTION	POSITION AS OF 4Q17
Kindred Healthcare, Inc. 8.75% due 2023	0.28%	1.6%
Energen Corp. 7.125% due 2028	0.23	8.6
Popular, Inc. 7.0% due 2019	0.20	6.1
Welltec A/S 9.50% due 2022	0.07	3.3
Cincinnati Bell, Inc. 8.0% due 2025	0.07	2.3

TOP 5 DETRACTORS

SECURITY NAME	4Q17 CONTRIBUTION	POSITION AS OF 4Q17
Frontier Communications Corp. 10.5% due 2022	-0.23%	0.0%
Arch Merger Sub, Inc. (Staples) 8.5% due 2025	-0.07	3.3
Altice SA 7.75% due 2022	-0.04	0.7
Alliance Data Systems Corp. 5.375% due 2022	-0.03	3.4
Century Communities, Inc. 5.875 due 2025	-0.01	2.4

Diamond Hill High Yield Strategy

As of December 31, 2017

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2014

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

CALENDAR YEAR RETURNS (%)

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

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 High Yield 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 High Yield fixed income strategy. The strategy's investment objective is to generate high current income with the opportunity for capital appreciation over a five year time horizon. The strategy generally invests in corporate debt securities that are related below investment grade or are unrated. 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 ICE BofAML U.S. High Yield Index is comprised of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. 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 High Yield separate accounts is as follows: First $50,000,000 = 0.60%; Over $50,000,000 = 0.50%. For calendar year end 2015, the non-fee paying account percentage of the Composite is 100%. 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	HIGH YIELD COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)	
	Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	High Yield Composite	ICE BofAML U.S. High Yield Index
2017	$22.3B	5 or fewer	$31.1M	NA[1]	5.15%	5.60%
2016	19.4B	5 or fewer	31.9M	NA[1]	NA[2]	NA[2]
2015	16.8B	5 or fewer	10.1M	NA[1]	NA[2]	NA[2]

[1] NA = Not Applicable

[2] The three-year annualized ex-post standard deviation of the composite and/or benchmark is not presented because 36 monthly returns are not available.

This composite was created in January 2016.

Global Investment Performance Standards