

*All Composite returns are net of fees.*

The Composite\* generated a 0.38% total return during the first quarter compared to -1.98% for the ICE Bank of America Merrill Lynch U.S. Corporate & High Yield Index. For the trailing five years, the Composite generated an annualized total return of 5.76% compared to 3.39% for the Corporate & High Yield Index.

Unlike most corporate bond strategies, Diamond Hill Corporate Credit is not managed against any index. Instead, the strategy is managed against absolute objectives within a range of inflation plus 3% and 7% nominal, each measured over rolling five-year periods. Our goal is to generate a yield and total return within that range 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 we have been largely focused on the high yield portion of the market to achieve these objectives. About 90% of the strategy was in high yield corporate bonds at the end of the first quarter.

The high yield portion of the U.S. corporate bond market, as represented by the ICE Bank of America Merrill Lynch U.S. High Yield Index, began the year with a yield to worst (YTW) of 5.84% and option-adjusted spread (OAS) of 363 basis points. After generating a -0.91% total return in the first quarter, the High Yield Index ended the quarter with a 6.35% YTW and OAS of 372 basis points.

Financial markets have been sensitive to signs of wage inflation as that could ultimately lead to a more aggressive Federal Reserve. Also, markets may test the new Fed chair to get a better sense of when the Fed will try to suppress volatility. Volatility is difficult to forecast but with the aging of the economic and federal funds rate hike cycles and the impending global quantitative tightening, we expect (and always want to be prepared for) more frequent bouts of volatility.

## PORTFOLIO MANAGEMENT



Bill Zox, CFA  
Portfolio Manager



John McClain, CFA  
Portfolio Manager



Suken Patel, CFA  
Asst. Portfolio Manager

The high yield market is still priced for low defaults and muted volatility. The strategy'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 (the peak of that high yield market cycle) and well above the high end of the range on February 11, 2016 (the most recent bottom of the high yield market). At the end of the quarter, the strategy's YTW was 5.42%. The strategy's duration was 3.24, within the typical 2.0-3.5 range and well below the High Yield Index duration of 4.22 and the Corporate & High Yield Index duration of 6.69.



# Diamond Hill Corporate Credit Strategy

As of March 31, 2018

## PERIOD & ANNUALIZED RETURNS (%)

Inception Date: September 30, 2002

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	1Q18
CORPORATE CREDIT COMPOSITE							
Gross of Fees	7.69	7.33	6.25	6.88	5.98	0.49	0.49
Net of Fees	7.19	6.82	5.76	6.41	5.52	0.38	0.38
BENCHMARKS							
ICE BofAML U.S. Corporate & High Yield Index	6.02	5.88	3.39	2.86	2.85	-1.98	-1.98
ICE BofAML U.S. High Yield Index	8.94	8.12	5.01	5.18	3.69	-0.91	-0.91

## CALENDAR YEAR RETURNS (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
CORPORATE CREDIT COMPOSITE										
Gross of Fees	-16.55	30.78	14.52	6.30	10.65	6.12	3.17	2.18	12.90	8.55
Net of Fees	-16.96	30.09	13.96	5.78	10.11	5.60	2.65	1.72	12.40	8.08
BENCHMARKS										
ICE BofAML U.S. Corporate & High Yield Index	-10.93	26.00	10.76	6.80	11.37	0.34	6.43	-1.37	7.97	6.66
ICE BofAML U.S. High Yield Index	-26.39	57.51	15.19	4.38	15.58	7.42	2.50	-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 – 12/31/17. 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.; registration does not imply a certain level of skill or training. 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 ICE BofAML 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 ICE BofAML 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. The index data referenced herein is the property of ICE Data Indices, LLC, its affiliates ("ICE Data") and/or its third party suppliers and has been licensed for use by Diamond Hill Capital Management, Inc. ICE Data and its third party suppliers accept no liability in connection with its use. See diamond-hill.com for a full copy of the disclaimer.

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)	ICE BofAML U.S. Corporate Credit Composite	Corporate & High Yield Index
2017	\$22.3B	5 or fewer	\$652.4M	NA	3.78%	3.63%	5.60%
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

NA = Not Applicable

This composite was created in April 2015.