Diamond Hill Core Bond Fund Commentary

As of March 31, 2018

All Fund returns based on Class I shares.

The Fund generated a -0.84% total return during the first quarter, compared to -1.46% for the Bloomberg Barclays U.S. Aggregate Index. Since its inception on July 5, 2016, the Fund has generated a total return of 0.62% compared to -0.72% for the Index. The goal of the Diamond Hill Core Bond Fund is to outperform the Index over a market cycle. We are pleased with how the Fund has performed on a relative basis, both in the most recent quarter and since its inception.

Volatility returned to the markets with a vengeance during the first quarter of 2018, spurred first by higher-than-expected wage growth reported for January (a 2.9% year-over-year increase compared to expectations of 2.6%) and then by on-and-off-again trade war rhetoric driven by statements from China and the United States. The quarter also saw the end of Janet Yellen's term as Federal Reserve chairwoman and the beginning of Jerome Powell's term, a transition that occurred smoothly. Chairman Powell continued the tradition of transparency from the Fed during his inaugural Humphrey Hawkins testimony to Congress. The Fed communicated its reluctance to infer that there would be any kind of "Powell Put"* as volatility spiked during the quarter. Both New York Fed President William Dudley and Chairman Powell made it clear that equity volatility would not influence federal funds rate management. First-quarter 2018 marks the first negative quarter for the Bloomberg Barclays U.S. Aggregate Index since the final quarter of 2016, when the markets were digesting the implications of the results of the U.S. election.

Much as it did in the preceding quarter, the yield curve continued to flatten during the first three months of 2018. Fueled by continued speculation surrounding the Federal Open Market Committee's (FOMC) plans to continue raising interest rates this year, the curve shifted higher throughout the quarter despite high levels of volatility. Specifically, the 1-year and 2-year Treasuries moved higher by 35 basis points and 28 basis points, respectively, while the longer end moved higher but at a reduced pace with the 10-year and 30-year increasing 33 basis points and 23 basis points, respectively. The Fund's underweight allocation to Treasuries relative to the benchmark was a positive contributor; however, the longer duration posture of the Treasury allocation within the Fund detracted on a relative basis as rates moved higher throughout the quarter.

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 first quarter, the Fund's duration was roughly 89% of the benchmark's duration (5.40 versus 6.08), reflecting the long-term viewpoint that interest rates have a greater chance of moving higher over the coming months and quarters. During the quarter, both the duration of the benchmark and the fund extended as rates moved higher, from 5.98 to 6.08 for the benchmark and from 5.25 to 5.40 for the Fund. The Fund's overall shorter duration positioning relative to the benchmark contributed to performance during the quarter.

After delivering the strongest returns by a sector in the investment grade universe in 2017, the Bloomberg Barclays U.S. Corporate Index finally pulled back, losing 232 basis points during the quarter. Utilities were the worst performing sector, dropping 2.87% during the quarter followed closely by industrials (-2.31%) and financials (-2.21%). The Fund's underweight allocation to investment grade corporate, as well as a shorter duration posture relative to the benchmark, contributed to relative performance. Financials and utilities were essentially a wash relative to the benchmark while the underweight position in industrials contributed to relative performance as this sector was hit rather hard 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. A fast start to the year for issuance in the asset-backed securities (ABS) market provided opportunities, especially in the auto ABS sector, which was up 11% year over year. Agency mortgage-backed securities (MBS) delivered the strongest relative performance, followed by ABS. The Fund's MBS allocation performed well during a volatile quarter as plain vanilla pass-through mortgages in the Index extended to a greater degree than the mortgage allocation in the Fund. The commercial MBS allocation in the Fund was additive relative to the benchmark as the Fund's positions held up better during the volatility of the quarter.

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

DIAMOND HILL | FUNDS

PERIOD AND AVERAGE ANNUAL TOTAL RETURNS AS OF MARCH 31, 2018

	SINCE INCEPTION (7/5/16)	1-YR	YTD	1Q18	EXPENSE RATIO
RETURNS AT NAV (WITHOUT SALES CHARGE)					
Class A	0.33%	1.83%	-0.90%	-0.90%	0.76%
Class I	0.62	2.13	-0.84	-0.84	0.47
Class Y	0.74	2.30	-0.72	-0.72	0.35
BENCHMARK					
Bloomberg Barclays U.S. Aggregate Index	-0.72	1.20	-1.46	-1.46	—
RETURNS AT POP (WITH SALES CHARGE)					
Class A	-1.70	-1.70	-4.40	-4.40	0.76

*This phrase originated with the "Greenspan Put" following the equity market crash in October 1987. Greenspan garnered a reputation of adjusting the federal funds rate whenever the stock market dropped below a certain point, which encouraged movement into equities and created a theoretical floor on equity valuations. The Fed has historically added liquidity to the market in times of stress such as the Asian Financial Crisis, Long-Term Capital Management Crisis, Y2K, the 9/11 terrorist attacks, and the 2008 Financial Crisis. This pattern of providing liquidity created the perception that the Fed would continue to protect asset prices in a stressed environment.

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 March 31, 2018, 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 Foreside Financial Services, 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.