Diamond Hill Short Duration Total Return Strategy

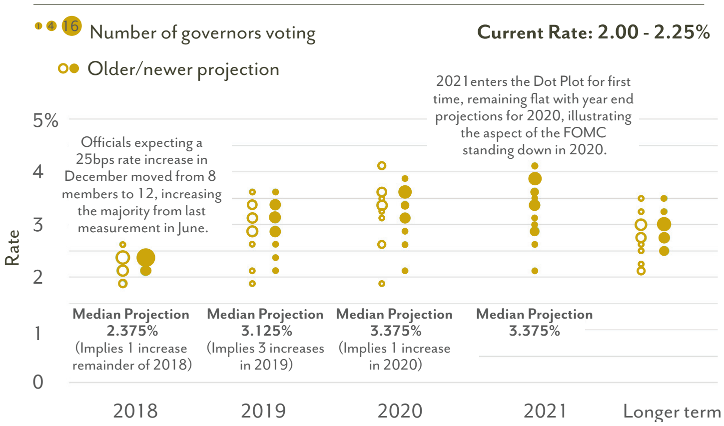
As of September 30, 2018

All Composite returns are net of fees.

The Composite* generated a 0.97% total return during the third quarter, compared to 0.33% for the Bloomberg Barclays U.S. 1-3 Year Government/Credit Index. Since inception, the strategy has generated a total return of 3.59% compared to 0.40% for the Index. The goal of the Diamond Hill Short Duration Total Return strategy is to outperform the Index over a market cycle, while generating a yield and return advantage relative to the benchmark. We are pleased with how the strategy has performed on a relative basis, both in the most recent quarter and since its inception.

During the third quarter, market volatility was driven by a combination of ongoing geopolitical issues, trade negotiations and the central bank action (or inaction). The quarter began with the Bank of Japan clarifying its current policy of Quantitative Easing but offered some minor policy changes; permitting the 10-year yield to move from 10 bps to 20 bps and reducing the amount of reserves facing negative rates of -0.1% by half. Turkey, Venezuela, China and Italy all shared moments in the sun during the quarter as each hit the headlines for various reasons. Ongoing political turmoil in Turkey and Venezuela roiled both emerging and developed markets, China's trade 'discussions' with the United States shook U.S. and European markets and Italy's economic uncertainty drove concerns for the ongoing health of the EU. All of this occurred while U.S. Treasury auctions continued to break new records with each successive auction and the FOMC raised rates for the eighth time since 2015 and set the stage for one final increase in December of this year. As outlined in the chart below, the FOMC is projecting to increase rates three additional times in 2019 and once more in 2020 before standing down.

FOMC PROJECTION COMPARISON: JUNE TO SEPTEMBER 2018



Source: U.S. Federal Reserve.

PORTFOLIO MANAGEMENT

Henry Song, CFA
Portfolio Manager

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Driven by the aforementioned geopolitical drama, trade discussions and central bank action, the U.S. Treasury curve fluctuated throughout the quarter. The 10-year Treasury began the quarter at 2.86%, reached 3.00% at the beginning of August before rallying to a low point of 2.81% near the end of August, post Fed Chief Powell's Jackson Hole speech where he defended his gradualist approach to interest rate hikes. From the end of August to the end of September, the curve continued to move higher with the 10-year peaking at 3.10% on September 25, prior to the FOMC announcement of the September rate increase and reinforcing expectations for a December rate increase. Unlike earlier times in the summer when the 10-year Treasury briefly breached the 3.00% threshold, the yield has remained above 3% since reaching that level on September 18. After many false starts at remaining above 3.0% on the 10-year, have we finally reached the point of no return? Only time will tell.

The yield curve continued the trend of 2018, as the spreads between the 2-year and 10-year Treasury yields moved from 33.1 bps at the end of the second quarter to 24.1 bps at the end of the third quarter. The spread between the 2-year and 10-year Treasury reached its lowest level since June 2007 when it bottomed-out at 18.9 bps on August 24. It was a similar story between the 2-year and 30-year Treasury, reducing from 46.0 bps to 38.5 bps over the same time period. The biggest impact to the flattening curve was the move higher in the 2-year Treasury, buoyed by the FOMC rate increase in September and projection for an additional increase in December of 2018 and three increases in 2019.

It is important to note that the Short Duration Total Return strategy works to provide yield for investors while focusing on the shorter end of the fixed income markets. Though there is a concentration on the shorter end of the yield curve, the strategy maintains a certain level of interest rate risk and can experience some price volatility in uncertain markets. We believe there are opportunities to add incremental yield over the benchmark by investing in structured product across the quality spectrum. The strategy strives to maintain an average credit quality rating of A while taking advantage of mispriced opportunities in both unrated securities and a small allocation to below investment grade securities.

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*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.

As of September 30, 2018, the strategy had a yield to worst (YTW) of 4.02% with an effective duration of 1.57, compared to the Index's YTW of 2.94% and effective duration of 1.92. Asset-backed securities (ABS) remain the largest allocation in the strategy and contribute the majority of the yield in the portfolio. Within the ABS sector, various subsectors were additive to performance, with auto loan ABS being the strongest contributor to performance during the quarter, followed by consumer loan ABS and equipment ABS. Non-agency commercial mortgage-backed securities also contributed to the overall performance of the portfolio.

The strategy's allocation to corporate credit detracted from performance as the investment grade corporate sector delivered strong returns during the quarter. The strategy has not invested in non-corporate credit (sovereign, supranational, etc.), and this positioning detracted minimally during the quarter despite positive performance from the sector due to the size of the sector in the index (less than 5%).

The strategy's minimal allocation to the U.S. Treasury sector (6.1%) detracted from relative performance as the Bloomberg Barclays 1-3 Year Treasury Index (a component of the Bloomberg Barclays 1-3 Year Government / Corporate Index) delivered 19 bps of return despite rates backing up on the shorter end of the curve.

The strategy continues to search for opportunities in the marketplace while maintaining an attractive yield relative to the benchmark.

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: July 31, 2016

	TRAILING				CALENDAR	
	SINCE INCEPTION	1-YR	YTD	3Q18	7/31/16 - 12/31/16	2017
SHORT DURATION TOTAL RETURN COMPOSITE						
Gross of Fees	3.96	3.74	2.78	1.06	0.88	4.89
Net of Fees	3.59	3.37	2.51	0.97	0.73	4.54
BENCHMARKS						
Bloomberg Barclays U.S. 1-3 Yr. Gov./Credit Index	0.40	0.20	0.41	0.33	-0.38	0.84

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AS OF YEAR-END	DHCM	SHORT DURATION TOTAL RETURN COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)	
	Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Short Duration Total Return Composite	Bloomberg Barclays U.S. 1-3 Yr. Gov./ Credit 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.

Global Investment Performance Standards