DIAMOND HILL CAPITAL MANAGEMENT

Quarterly Commentary: Fixed Income Composites

December 31, 2018

Short Duration Total Return	Corporate Credit
Core Bond	High Yield

Our Mission

At Diamond Hill, ***we serve*** our clients by providing investment strategies that deliver lasting value through a shared commitment to our intrinsic value-based investment philosophy, long-term perspective, disciplined approach and alignment with our clients' interests.

VALUE

We believe market price and intrinsic value are independent in the short-term but tend to converge over time.

LONG-TERM

We maintain a long-term focus both in investment analysis and management of our business.

DISCIPLINE

We invest with discipline to increase potential return and protect capital.

PARTNERSHIP

We align our interests with those of our clients through significant personal investment in our strategies.

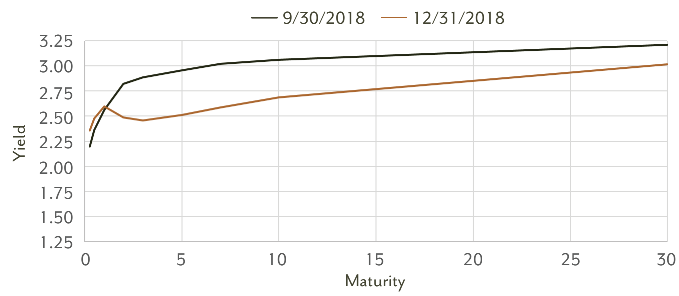
Fourth Quarter 2018 Review: Fixed Income Markets

As of December 31, 2018

The Federal Open Market Committee (FOMC) became a major force of market volatility during the fourth quarter, straining a market already under stress due to ongoing trade war rhetoric, a global economic slowdown, and the lead up to the most recent government shutdown. Federal Reserve chairman Jerome Powell started the quarter off on October 3 with comments pertaining to the central bank's positioning, stating that, "We're a long way off from neutral at this point." The Treasury market reaction was swift and pronounced, with the yield on the 10-year jumping 12 bps on the day of the speech, from 3.06% to 3.18%. The yield on the 10-year Treasury continued to climb into early November, peaking at 3.24%, before declining heading into the Thanksgiving holiday week as concerns arose around the viability of a cease-fire in the trade war agreed upon between President Trump and Chinese President Xi Jinping. December delivered one of the most volatile months in recent history for all asset classes, as markets and the Fed diverged in their respective outlooks for future interest rate management by the FOMC. As expected, the FOMC raised the target rate 25 bps to a range of 2.25%–2.50%, but the market was much more focused on the outlook delivered by the Dot Plot to better understand the potential for additional rate hikes in 2019. While there was no change to the economic assessment and minimal changes to language in the official statement, the downshift in the Dot Plot from three hikes in 2019 to two hikes was the major news. This meeting could be construed as dovishly hawkish, meaning that the Fed remains hawkish, projecting two increases in 2019, but by reducing from three increases and indicating a more data-dependent approach, there are dovish overtones. Equity markets reacted poorly to the statement and press conference, with the S&P 500 Index finishing December down over 9%. The 10-year Treasury rallied through the final part of the year, finishing the year at 2.68%. On December 22, the federal government partially shut down and remained so as of the end of the year.

Treasury

Yields in the Treasury market moved dramatically across the curve as the shorter end (one-month to two- to three-year) moved higher and the longer end (five-year to 30-year) collapsed from a year-long high. The yield curve continued the trend of 2018, as spreads between the two-year and 10-year Treasury yields moved from 24.1 bps at the end of the third quarter to 19.5 bps at the end of the fourth quarter. The spread between the two-year and 10-year Treasury surged past its prior low for the year (18.9 bps on August 24), reaching 10.9 bps on December 19 during Jerome Powell's post-FOMC press conference. The short end of the Treasury curve inverted, as the five-year Treasury yield dropped below both the yield on the two-year and three-year Treasury during the first two and a half weeks of December. The Bloomberg Barclays Treasury Index delivered 2.57% during the quarter, more than enough to offset the 1.67% lost during the first three quarters of 2018.



	3-MO	6-MO	1-YR	2-YR	3-YR	5-YR	7-YR	10-YR	30-YR
9/30/18	2.20	2.36	2.56	2.82	2.88	2.95	3.02	3.06	3.21
12/31/18	2.36	2.48	2.60	2.49	2.46	2.51	2.59	2.68	3.02
Change	0.16	0.11	0.03	-0.33	-0.43	-0.44	-0.43	-0.38	-0.19

Securitized

While the investment grade and high yield markets experienced one of the more difficult quarters in recent memory, the securitized market continued to deliver strong absolute returns. Residential mortgage-backed securities (RMBS) delivered the strongest performance during the quarter, with a 2.08% return, followed by commercial mortgage-backed securities (CMBS) with a 1.72% return, and asset-backed securities (ABS) returning 1.25%. Relative to comparable-duration Treasuries, which delivered strong performance during the quarter, the shorter duration ABS market trailed by 16 bps, RMBS trailed by 53 bps, and CMBS trailed by 112 bps. Within the ABS sector, autos returned 1.12% (-17 bps excess return) and credit cards returned 1.35% (-14 bps excess return).

*Excess return indicates the return over comparable duration Treasuries.

Fourth Quarter 2018 Review: Fixed Income Markets

As of December 31, 2018

Investment Grade and High Yield Credit

The Bloomberg Barclays U.S. Corporate Index delivered negative quarterly returns for the third time in 2018, with the third quarter representing the only positive quarter. The Index was dragged lower by the industrials sector, which was down 46 bps (-350 bps excess return), while financials (+27 bps, -233 bps excess return), and utilities (+20 bps, -325 bps excess return) helped to offset some of the negative performance. The significant underperformance from an excess return standpoint reflects the strong quarter for Treasuries combined with the dwindling appetite for risk going into year-end. The high yield market, as measured by the ICE BofA ML U.S. High Yield Index, experienced its worst quarter since 2008, declining 4.67%, pushing the 2018 calendar return into negative territory (-2.26%). Spreads widened dramatically in the final seven weeks of the quarter, beginning on November 8 after Fed Chairman Powell's press conference. During the quarter, spreads for the ICE BofA ML U.S. High Yield Index widened more than 200 basis points, from 328 to 533, while the yield to worst increased from 6.29% to 7.95%, pushing above 8% during December. The CCC segment, which had led the market throughout the first three quarters of the year, lost more than 10% during the quarter and ended the year in negative territory. The BB and B segments of the high yield market were negative during the quarter (down 299 bps and 485 bps, respectively) and also ended the year in negative territory.

Diamond Hill Short Duration Total Return Strategy

As of December 31, 2018

All Composite returns are net of fees.

The Composite* generated a 0.88% total return during the fourth quarter, compared to 1.18% 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 0.85% 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 since inception, despite underperforming during the most recent quarter.

The Federal Open Market Committee (FOMC) became a major force of market volatility during the fourth quarter, straining a market already under stress due to ongoing trade war rhetoric, a global economic slowdown, and the lead up to the most recent government shutdown. Federal Reserve chairman Jerome Powell started the quarter off on October 3 with comments pertaining to the central bank's positioning, stating that, "We're a long way off from neutral at this point." The Treasury market reaction was swift and pronounced, with the yield on the 10-year jumping 12 bps on the day of the speech, from 3.06% to 3.18%. The yield on the 10-year Treasury continued to climb into early November, peaking at 3.24%, before declining heading into the Thanksgiving holiday week as concerns arose around the viability of a cease-fire in the trade war agreed upon between President Trump and Chinese President Xi Jinping. December delivered one of the most volatile months in recent history for all asset classes, as markets and the Fed diverged in their respective outlooks for future interest rate management by the FOMC. As expected, the FOMC raised the target rate 25 bps to a range of 2.25%–2.50%, but the market was much more focused on the outlook delivered by the Dot Plot to better understand the potential for additional rate hikes in 2019. While there was no change to the economic assessment and minimal changes to language in the official statement, the downshift in the Dot Plot from three hikes in 2019 to two hikes was the major news. This meeting could be construed as dovishly hawkish, meaning that the Fed remains hawkish, projecting two increases in 2019, but by reducing from three increases and indicating a more data-dependent approach, there are dovish overtones. Equity markets reacted poorly to the statement and press conference, with the S&P 500 Index finishing December down over 9%. The 10-year Treasury rallied through the final part of the year, finishing the year at 2.68%. On December 22, the federal government partially shut down and remained so as of the end of the year.

TEAM

Henry Song, CFA
Portfolio Manager

Mark Jackson, CFA
Portfolio Manager

Douglas Gimple
Sr. Portfolio Specialist

Yields in the Treasury market moved dramatically across the curve as the shorter end (one-month to two- to three-year) moved higher and the longer end (five-year to 30-year) collapsed from a year-long high. The yield curve continued the trend of 2018, as spreads between the two-year and 10-year Treasury yields moved from 24.1 bps at the end of the third quarter to 19.5 bps at the end of the fourth quarter. The spread between the two-year and 10-year Treasury surged past its prior low for the year (18.9 bps on August 24), reaching 10.9 bps on December 19 during Jerome Powell's post-FOMC press conference. The short end of the Treasury curve inverted, as the five-year Treasury yield dropped below both the yield on the two-year and three-year Treasury during the first two and a half weeks of December.

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.

As of December 31, 2018, the strategy had a yield to worst (YTW) of 4.33% with an effective duration of 1.40, compared to the Index's YTW of 2.75% and effective duration of 1.90. Asset-backed securities (ABS) remain the largest allocation in the strategy and was the strongest contributor to the yield advantage of the portfolio over the benchmark.

Within the securitized sector, ABS delivered strong performance led by consumer, equipment and student loans. Residential and commercial mortgage-backed securities also contributed to relative performance during the quarter. The strategy's

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underweight position in the corporate sector relative to the benchmark detracted slightly from performance as the short end of the corporate sector delivered strong returns during the quarter.

Despite an increase in the strategy's Treasury allocation, the underweight relative to the index 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 129 bps of return as rates rallied across 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	4Q18	7/31/16 - 12/31/16	2017	2018
SHORT DURATION TOTAL RETURN COMPOSITE							
Gross of Fees	3.95	3.78	3.78	0.97	0.88	4.89	3.78
Net of Fees	3.59	3.41	3.41	0.88	0.73	4.54	3.41
BENCHMARKS							
Bloomberg Barclays U.S. 1-3 Yr. Gov./Credit Index	0.85	1.60	1.60	1.18	-0.38	0.84	1.60

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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
2018	$19.1B	5 or fewer	$579.3M	NA[1]	NA[2]	NA[2]
2017	22.3B	5 or fewer	312.9M	NA[1]	NA[2]	NA[2]
2016	19.4B	5 or fewer	197.5M	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

Diamond Hill Core Bond Strategy

As of December 31, 2018

All Composite returns are net of fees.

The Composite* generated a 2.22% total return during the fourth quarter, compared to 1.64% for the Bloomberg Barclays U.S. Aggregate Index. Since inception, the strategy has generated a total return of 1.41% compared to 0.12% for the Index. The goal of the Diamond Hill Core Bond strategy is to outperform the Index over a market cycle. We are pleased with how the strategy has performed on a relative basis, both in the most recent quarter and since its inception.

TEAM

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The Federal Open Market Committee (FOMC) became a major force of market volatility during the fourth quarter, straining a market already under stress due to ongoing trade war rhetoric, a global economic slowdown, and the lead up to the most recent government shutdown. Federal Reserve chairman Jerome Powell started the quarter off on October 3 with comments pertaining to the central bank's positioning, stating that, "We're a long way off from neutral at this point." The Treasury market reaction was swift and pronounced, with the yield on the 10-year jumping 12 bps on the day of the speech, from 3.06% to 3.18%. The yield on the 10-year Treasury continued to climb into early November, peaking at 3.24%, before declining heading into the Thanksgiving holiday week as concerns arose around the viability of a cease-fire in the trade war agreed upon between President Trump and Chinese President Xi Jinping. December delivered one of the most volatile months in recent history for all asset classes, as markets and the Fed diverged in their respective outlooks for future interest rate management by the FOMC. As expected, the FOMC raised the target rate 25 bps to a range of 2.25%–2.50%, but the market was much more focused on the outlook delivered by the Dot Plot to better understand the potential for additional rate hikes in 2019. While there was no change to the economic assessment and minimal changes to language in the official statement, the downshift in the Dot Plot from three hikes in 2019 to two hikes was the major news. This meeting could be construed as dovishly hawkish, meaning that the Fed remains hawkish, projecting two increases in 2019, but by reducing from three increases and indicating a more data-dependent approach, there are dovish overtones. Equity markets reacted poorly to the statement and press conference, with the S&P 500 Index finishing December down over 9%. The 10-year Treasury rallied through the final part of the year, finishing the year at 2.68%. On December 22, the federal government partially shut down and remained so as of the end of the year.

Yields in the Treasury market moved dramatically across the curve as the shorter end (one-month to two- to three-year) moved higher and the longer end (five-year to 30-year) collapsed from a year-long high. The yield curve continued the trend of 2018, as spreads between the two-year and 10-year Treasury yields moved from 24.1 bps at the end of the third quarter to 19.5 bps at the end of the fourth quarter. The spread between the two-year and 10-year Treasury surged past its prior low for the year (18.9 bps on August 24), reaching 10.9 bps on December 19 during Jerome Powell's post-FOMC press conference. The short end of the Treasury curve inverted, as the five-year Treasury yield dropped below both the yield on the two-year and three-year Treasury during the first two and a half weeks of December.

The 10-year Treasury began the quarter at 3.06% and peaked in early October at 3.23% before rallying throughout the final weeks of the year to end the year at 2.65%. The shorter end of the curve followed a similar pattern as the two-year Treasury began the quarter at 2.82%, peaked at 2.97% on November 8, and rallied into year-end to finish at 2.49%. The rally across the curve delivered the strongest quarterly performance for the 10-year Treasury (3.87%) since the first quarter of 2016 and the strongest performance for the 30-year since the second quarter of 2017. The Treasury index delivered 2.57% during the final quarter of the year, more than enough to offset the 1.67% lost during the first three quarters of 2018. Despite the strategy's longer duration posture in Treasuries relative to the index, the underweight exposure (19.6% vs. 38.9%) detracted from performance during the quarter.

The strategy's duration has been maintained within our targeted range of +/-10% of the benchmark's duration. At the end of the third quarter, the strategy's duration was 5.42 compared to the index duration of 6.03, reflecting the long-term viewpoint that interest rates have a greater chance of moving higher over the coming months and quarters. Rates rallied throughout the quarter, pushing the duration of the Bloomberg Barclays U.S. Aggregate Index to 5.87 at the end of the fourth quarter. The strategy added duration during the quarter and ended at 5.52, slightly longer than the previous quarter-end but still shorter than the index. The strategy's overall shorter duration positioning relative to the benchmark detracted from performance during the quarter.

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Diamond Hill Core Bond Strategy

As of December 31, 2018

The Bloomberg Barclays U.S. Corporate Index delivered negative quarterly returns for the third time in 2018, with the third quarter representing the only positive quarter. The index was dragged lower by the industrial sector, which was down 46 bps (negative 350bps excess return) while financials (+27 bps, down 233 bps excess) and utilities (+20 bps, down 325 bps excess) helped to offset some of the negative performance. The significant underperformance from an excess return standpoint reflects the strong quarter for Treasuries combined with the dwindling appetite for risk going into year-end. The strategy's positioning in its corporate allocation contributed to performance as a result of the significant underweight in industrials and slight overweight allocation to financials.

While the investment grade and high yield markets experienced one of the more difficult quarters in recent memory, the securitized market continued to deliver strong absolute returns. Residential mortgage-backed securities (RMBS) delivered the strongest performance during the quarter, with 2.08% return, followed by commercial mortgage-backed securities (CMBS) with 1.72% return and asset-backed securities (ABS) returning 1.25%. Relative to comparable duration Treasuries, which delivered strong performance during the quarter, the shorter duration ABS market trailed by 16 bps, RMBS trailed by 53 bps and CMBS trailed by 112 bps. Within the ABS sector, autos returned 1.12% (-17 bps excess return) and credit cards returned 1.35% (-14 bps excess return). The strategy's overweight in the securitized sector contributed to performance during the quarter, with Residential MBS delivering the strongest contribution.

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

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: July 31, 2016

	TRAILING				CALENDAR		
	SINCE INCEPTION	1-YR	YTD	4Q18	7-31/16 - 12/31/16	2017	2018
CORE BOND COMPOSITE							
Gross of Fees	1.71	2.06	2.06	2.30	-2.45	4.64	2.06
Net of Fees	1.41	1.75	1.75	2.22	-2.56	4.33	1.75
BENCHMARKS							
Bloomberg Barclays U.S. Aggregate Index	0.12	0.01	0.01	1.64	-3.14	3.54	0.01

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AS OF YEAR-END	DHCM	CORE BOND COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)	
	Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Core Bond Composite	Bloomberg Barclays U.S. Aggregate Index
2018	$19.1B	5 or fewer	$55.2M	NA[1]	NA[2]	NA[2]
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

Diamond Hill Corporate Credit Strategy

As of December 31, 2018

All Composite returns are net of fees.

The Composite* generated a -2.19% total return during the fourth quarter compared to -0.80% for the ICE Bank of America Merrill Lynch U.S. Corporate & High Yield Index. Year to date, the Composite generated a 0.80% total return compared to -2.21% for the Corporate & High Yield Index. For the trailing five years, the Composite generated an annualized total return of 5.04% compared to 3.40% for the Corporate & High Yield Index.

Unlike most corporate bond strategies, the Diamond Hill Corporate Credit strategy 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 the strategy has been largely focused on the high yield portion of the market to achieve these objectives. About 86% of the strategy was in high yield corporate bonds at the end of the fourth 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 an option-adjusted spread (OAS) of 363 basis points. After generating a -2.26% total return for the year, the High Yield Index ended the year with a 7.95% YTW and OAS of 533 basis points. A YTW close to 8% is a much better starting point for the high yield asset class than 5.8% at the beginning of 2018 or 4.8% at the peak of the last high yield cycle in late June 2014.

We want to hold up better than peers in down markets and then capture our fair share of the upside in strong markets. This should allow us to achieve our objectives and generate competitive returns over a complete market cycle. Thus, we were gratified to generate a positive total return in a down market during 2018. Further, the strategy was one of only eight in the Morningstar High Yield Category that was positive each of the last five calendar years, and the other six were short-duration high yield strategies. The strategy was one of only two in the Morningstar High Yield Category that was positive in each of the last 10 calendar years, and the other was a short-duration high yield strategy.

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Asst. Portfolio Manager

Douglas Gimple
Sr. Portfolio Specialist

Our structural advantages helped immensely. Because we do not manage against any benchmark, we came into the year with much less exposure to the BB-portion of the high yield market which was overvalued with too much interest rate risk. As Treasury yields increased and credit spreads widened, we increased our exposure to that part of the market by 18 percentage points, exiting the year with a much higher credit quality portfolio than we have had since the middle of 2014. Because we evaluate our performance over rolling five-year periods, we felt no need to chase the strong but overvalued high yield market in the third quarter and we were positioned defensively coming into the fourth quarter. Because we concentrate in our best ideas regardless of their weight in any benchmark, our credit selection outweighed the material spread widening of the High Yield Index in 2018. For example, the strategy generated positive returns in 11 out of 18 industries compared to only four out of 18 in the High Yield Index.

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 in late June 2014 and well above the high end of the range in early February 2016 (the most recent bottom of the high yield market). At the end of 2018, the strategy's YTW was 6.51%. The strategy's duration was 3.74, above its typical 2.0-3.5 range but still below the High Yield Index duration of 4.19 and the Corporate & High Yield Index duration of 6.48. Materially wider credit spreads far outweigh any remaining concerns about interest rate risk.

The first three quarters of 2018 were characterized by rising Treasury yields, yield curve flattening, stable credit spreads and, after April, muted volatility. The Fed hiked three times and was signaling one more hike in the fourth quarter. The Treasury market moved in sync with the Fed, although the back end of the curve did not increase as much as the front end, so the curve flattened.

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Much of this regime changed dramatically in the fourth quarter. Volatility spiked and stayed elevated through the end of the year. Through the November 8 meeting of the Federal Reserve, the volatility was led by a move higher in Treasury yields that seemed to ratify hawkish comments from Fed Chair Powell in early October. Diverging from the move in Treasuries, stocks and high yield bonds were 4-9% off their highs. Oil had declined 20% from its October 3 peak and trade tensions with China were escalating. In its November 8 statement, the Fed did not acknowledge any meaningful change to the environment or to its outlook.

Between the Fed's November 8 and December 19 meetings, Treasury yields came back down, and stocks and high yield bonds declined markedly. For example, the 10-year Treasury yield peaked at 3.24% on November 8 but declined by 42 basis points to 2.82% on December 18. The S&P 500 was down 9% between meetings and 13% from the peak while the Russell 2000 was down 13% between meetings and 20% from the peak. The High Yield Index was down 2.2% between meetings and 3.4% from the peak. (Because high yield bonds are senior to equity in the capital structure, they held up much better than equities in the sell-off, as we would expect.)

This was a treacherous set-up for the Fed's December 19 meeting, exacerbated by limited liquidity in financial markets going into the Christmas and New Year holidays. On December 19, the Fed hiked another 25 basis points but its median projections for hikes in 2019 and the long-run neutral Fed Funds rate each came down by 25 basis points. Financial markets initially took this new information in stride until the post-statement press conference. In light of the lowered expectations for interest rate hikes, Fed Chair Powell was asked the predictable question of whether the Fed might alter the pace of its balance sheet reduction. The Chair responded by saying that the balance sheet reduction was on "autopilot." Risk assets, like stocks and high yield bonds, immediately sold off and Treasuries rallied.

While there is some debate on how the Fed's balance sheet reduction impacts financial markets, the spike in volatility since the beginning of the fourth quarter coincided with the first month in years that the big four global central banks were not collectively increasing the size of their balance sheets. In our judgment this had a meaningful impact on the willingness of market participants to bear risk and the Fed Chair's message that the balance sheet reduction was on "autopilot" was not sufficiently sensitive to the market signals leading into the December 19 meeting.

Markets delivered an unequivocal message to the Fed with stocks declining about 8% in the four trading sessions beginning with the December 19 Fed press conference. Since then, the Fed has repeatedly walked back the "autopilot" comment and stocks regained most of the final 8% decline by the end of the year. Still, at the end of the year, the S&P 500 was down about 14% from its September 20 peak while the Russell 2000 was down about 22% from its August 30 peak. The High Yield Index was down about 5% from its October 3 peak.

To engineer a soft landing for the economy, it is appropriate for the Fed to tighten financial conditions. The Fed, as well as other central banks, is also trying to get out of the business of suppressing volatility in financial markets. However, this will not be easy and financial conditions had probably tightened too much at the Christmas Eve lows in stocks. With inflation contained and inflation expectations coming down, there is no need for the Fed to push the economy into recession.

Some part of the decline in risk assets is attributable to the potential of a policy error not just by the Fed, but also by the Trump administration, Congress, or by authorities elsewhere in the world. It is important that authorities pay close attention to significant and sustained market signals. Some part of the decline is attributable to signs that global growth is slowing. Finally, some part of the decline is attributable to a "liquidity recession." One example of this "liquidity recession" in the high yield market is that investors in high yield ETFs expect more liquidity from those ETFs than the underlying high yield market can deliver. All of these factors feed on each other, making it difficult to discern how much each is influencing the financial markets.

We expect volatility to remain elevated for the foreseeable future as is typical late in the economic and market cycles. Over the next three to five years, starting from an 8% YTW, we forecast returns from high yield bonds somewhere between reasonable to good depending on how long the economic cycle is sustained. As always, we are focused on delivering risk-adjusted returns over a complete market cycle by holding up better during down cycles and capturing our fair share of up cycles.

Diamond Hill Corporate Credit Strategy

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: September 30, 2002

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	4Q18
CORPORATE CREDIT COMPOSITE							
Gross of Fees	7.37	9.36	5.52	7.46	1.26	1.26	-2.08
Net of Fees	6.87	8.83	5.04	6.99	0.80	0.80	-2.19
BENCHMARKS							
ICE BofAML U.S. Corporate & High Yield Index	5.72	7.01	3.40	4.04	-2.21	-2.21	-0.80
ICE BofAML U.S. High Yield Index	8.42	10.99	3.82	7.27	-2.26	-2.26	-4.67

CALENDAR YEAR RETURNS (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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	1.26
Net of Fees	-16.96	30.09	13.96	5.78	10.11	5.60	2.65	1.72	12.40	8.08	0.80
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	-2.21
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	-2.26

Analytics provided by The Yield Book® Software. 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 – 9/30/18. 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. GIPS is 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)	Corporate Credit Composite	ICE BofAML U.S. Corporate & High Yield Index	ICE BofAML U.S. High Yield Index
2018	$19.1B	5 or fewer	$743.4M	NA	3.35%	4.64%	3.43%
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.

Global Investment Performance Standards

Diamond Hill High Yield Strategy

As of December 31, 2018

All Composite returns are net of fees.

TThe Composite generated a -2.49% total return during the fourth quarter compared to -4.67% for the ICE Bank of America Merrill Lynch U.S. High Yield Index. For the year, the Composite generated a total return of 1.33% compared to -2.26% for the High Yield Index. Since inception, the Composite generated an annualized total return of 6.77% compared to 4.16% for the High Yield Index.

The 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 -2.26% total return for the year, the High Yield Index ended the year with a 7.95% YTW and OAS of 533 basis points. A YTW close to 8% is a much better starting point for the high yield asset class than 5.84% at the beginning of 2018 or 6.38% at the strategy's inception. The strategy ended the year with a 7.07% YTW and a duration of 4.18, within our typical duration range of plus or minus 10% of the High Yield Index.

We want to hold up better than peers in down markets and then capture our fair share of the upside in strong markets. This should allow us to generate competitive high yield returns over a complete market cycle. Thus, we were gratified to generate a positive total return in a down market during 2018. Further, the strategy was also positive in 2015, the other negative high yield year during the strategy's existence.

Our structural advantages helped immensely. Because of our willingness to look different than the benchmark, we came into the year with much less exposure to the BB-portion of the high yield market which was overvalued with too much interest rate risk. As Treasury yields increased and credit spreads widened, we increased our exposure to that part of the market by 18 percentage points, exiting the year with a much higher credit quality portfolio than we have had since inception. Because we evaluate our performance over rolling five-year periods, we felt no need to chase the strong but overvalued high yield market in the third quarter and we were positioned defensively coming into the fourth quarter. Because we concentrate in our best ideas regardless of their weight in the benchmark, our credit selection outweighed the material spread widening of the High Yield Index in 2018. For example, the strategy generated positive returns in 13 out of 18 industries compared to only four out of 18 in the High Yield Index.

TEAM

Bill Zox, CFA
Portfolio Manager

John McClain, CFA
Portfolio Manager

Suken Patel, CFA
Asst. Portfolio Manager

Douglas Gimple
Sr. Portfolio Specialist

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Much of this regime changed dramatically in the fourth quarter. Volatility spiked and stayed elevated through the end of the year. Through the November 8 meeting of the Federal Reserve, the volatility was led by a move higher in Treasury yields that seemed to ratify hawkish comments from Fed Chair Powell in early October. Diverging from the move in Treasuries, stocks and high yield bonds were 4-9% off their highs. Oil had declined 20% from its October 3 peak and trade tensions with China were escalating. In its November 8 statement, the Fed did not acknowledge any meaningful change to the environment or to its outlook.

Between the Fed's November 8 and December 19 meetings, Treasury yields came back down, and stocks and high yield bonds declined markedly. For example, the 10-year Treasury yield peaked at 3.24% on November 8 but declined by 42 basis points to 2.82% on December 18. The S&P 500 was down 9% between meetings and 13% from the peak, while the Russell 2000 was down 13% between meetings and 20% from the peak. The High Yield Index was down 2.2% between meetings and 3.4% from the peak. (Because high yield bonds are senior to equity in the capital structure, they held up much better than equities in the sell-off, as we would expect.)

This was a treacherous set up for the Fed's December 19 meeting, exacerbated by limited liquidity in financial markets going into the Christmas and New Year holidays. On December 19, the Fed hiked another 25 basis points but its median projections for hikes in 2019 and the long-run neutral Fed Funds rate each came down by 25

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While there is some debate on how the Fed's balance sheet reduction impacts financial markets, the spike in volatility since the beginning of the fourth quarter coincided with the first month in years that the big four global central banks were not collectively increasing the size of their balance sheets. In our judgment this had a meaningful impact on the willingness of market participants to bear risk and the Fed Chair's message that the balance sheet reduction was on "autopilot" was not sufficiently sensitive to the market signals leading into the December 19 meeting.

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To engineer a soft landing for the economy, it is appropriate for the Fed to tighten financial conditions. The Fed, as well as other central banks, is also trying to get out of the business of suppressing volatility in financial markets. However, this will not be easy and financial conditions had probably tightened too much at the Christmas Eve lows in stocks. With inflation contained and inflation expectations coming down, there is no need for the Fed to push the economy into recession.

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We expect volatility to remain elevated for the foreseeable future as is typical late in the economic and market cycles. Over the next three to five years, starting from an 8% YTW, we forecast returns from high yield bonds somewhere between reasonable to good depending on how long the economic cycle is sustained. As always, we are focused on delivering competitive high yield returns over a complete market cycle by holding up better during down cycles and capturing our fair share of up cycles.

Diamond Hill High Yield Strategy

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2014

	SINCE INCEPTION	3-YR	1-YR	YTD	4Q18
HIGH YIELD COMPOSITE					
Gross of Fees	7.17	9.31	1.85	1.85	-2.36
Net of Fees	6.77	8.76	1.33	1.33	-2.49
BENCHMARKS					
ICE BofAML U.S. High Yield Index	4.16	7.27	-2.26	-2.26	-4.67

CALENDAR YEAR RETURNS (%)

	2015	2016	2017	2018
HIGH YIELD COMPOSITE				
Gross of Fees	1.02	15.40	11.12	1.85
Net of Fees	1.02	14.82	10.58	1.33
BENCHMARKS				
ICE BofAML U.S. High Yield Index	-4.64	17.49	7.48	-2.26

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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
2018	$19.1B	5 or fewer	$54.4M	NA[1]	4.39%	4.64%
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

DIAMOND HILL CAPITAL MANAGEMENT

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