Diamond Hill Short Duration Total Return Fund Commentary

As of December 31, 2018

TEAM

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All Fund returns based on Class I shares.

The Fund generated a 0.83% total return during the fourth quarter, compared to 1.18% for the Bloomberg Barclays U.S. 1-3 Year Government/Credit Index. Since its inception on July 5, 2016, the Fund has generated a total return of 3.52% compared to 0.80% for the Index. The goal of the Diamond Hill Short Duration Total Return Fund 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 Fund 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.

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 Fund 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 Fund 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 Fund 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 Fund 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 Fund 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 Fund's 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 Fund'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 Fund continues to search for opportunities in the marketplace while maintaining an attractive yield relative to the benchmark.

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

	SINCE INCEPTION (7/5/16)	1-YR	YTD	4Q18	EXPENSE RATIO
RETURNS AT NAV (WITHOUT SALES CHARGE)					
Class I	3.52%	3.18%	3.18%	0.83%	0.52%
BENCHMARK					
Bloomberg Barclays U.S. 1-3 Yr. Gov./Credit Index	0.80	1.60	1.60	1.18	—

Must be preceded or accompanied by a prospectus.

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 December 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.

Fund holdings subject to change without notice.

The Bloomberg Barclays U.S. 1-3 Yr. Gov./Credit Index is an unmanaged index of investment grade government and corporate bonds with maturities of one to three years.This index does not incur fees and expenses (which would lower the return) and is not available for direct investment.

Analytics provided by The Yield Book® Software.

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.