Quarterly Commentary: Fixed Income Composites

June 30, 2019

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.

Second Quarter 2019 Review: Fixed Income Markets

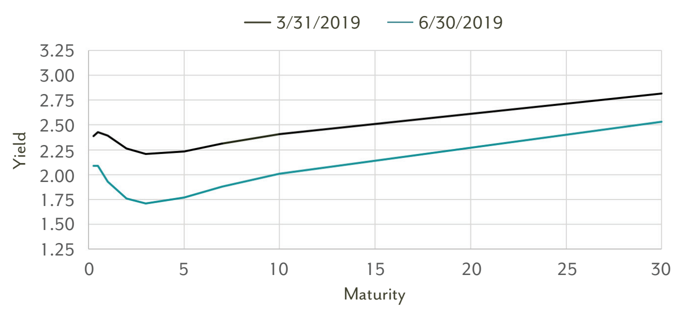
As of June 30, 2019

With concerns around Brexit falling to the background, at least until October, the ongoing trade war and the Federal Open Market Committee (FOMC) continue to drive market volatility and the fluctuation between risk-on and risk-off trades. Markets spent much of the quarter on a roller coaster ride, reaching new records in April only to drop dramatically in May before rallying to finish the quarter in record territory. The early part of the quarter was driven by the FOMC's continued pivot to a more dovish stance as the first two meetings during the quarter reinforced the change in outlook with the FOMC, lowering interest rates on excess reserves 5 basis points (bps) to 2.35%. This change was implemented to bring the Fed Funds effective rate in line with the midpoint of the current range of 2.25 – 2.50%, and it succeeded in dropping the rate from 2.45% to 2.40%. Mid-quarter, we saw the end of Theresa May's run as prime minister of the United Kingdom due to ongoing uncertainty around Brexit and acceleration in the trade war with China, as well as a brief trade war dust up with Mexico. These geopolitical upheavals, as well as less-than-stellar non-farm payroll numbers for May (only 75,000 jobs added), generated a flight to quality and brought back memories of December 2018's volatility. Fueled by ongoing dovish comments from the FOMC and slightly positive developments from the G-20 Summit in Japan, risk assets roared back to record levels in June. Even rising tensions in the Middle East couldn't derail the strong finish to the quarter.

In one of the most anticipated FOMC meetings in recent years, Federal Reserve Chairman Jerome Powell held the line on rates, keeping Fed Funds in the 2.25 – 2.50% range while laying the groundwork for potential rate cuts in the near future. The overall tone of the meeting was extremely dovish, but it can also be interpreted as defining future cuts as "fine tuning" and not the beginning of a full rate cutting cycle. This conclusion can be reached by examining the increasingly less relevant Dot Plot data that was published after the meeting. The 2020 plot was dropped to a median range of 2.1% from 2.6% (reflecting roughly 30 bps of easing from where rates currently stand) and the long-run estimate was lowered to 2.5% from 2.8%. However, the 2021 rate projection only dropped to 2.4% from 2.6%, a clear signal that the Fed views this as a short-term adjustment and not a long-term easing cycle. The Fed's growth assessment was changed from "solid" to "moderate," and the phrase "act as appropriate" was included as well. The meeting marked the first official dissension during Powell's term, as St. Louis Fed President James Bullard voted against the decision to keep rates unchanged, stating that he would prefer to lower the Fed's benchmark rate by 0.25% from its current range. One of the more dovish members of the Fed, Bullard has expressed concerns for months about the U.S. economic outlook.

Treasury

The 10-year Treasury followed up the first quarter's 3.08% return with its best quarter since early 2016, generating a 4.22% return, as the 10-year Treasury rallied from 2.41% on March 31 to finish the second quarter at 2.01%. While the curve once again moved lower across all maturities, the biggest impact was felt on the longer end of the curve, with the 30-year Treasury generating 6.76% return during the quarter, as the yield moved from 2.81% to 2.53%, the largest quarterly drop since the second quarter of 2016. Maturities from 1-year to 30-year declined an average of 43.3 bps with the largest move occurring with the 2-year and 3-year Treasuries, both declining 50.0 bps. Unlike the first quarter, when the 3-month Treasury bill was relatively unchanged, it dropped from 2.38% to 2.09% during the second quarter, reflecting the potential for rate cuts in the near future.



	3-MO	6-MO	1-YR	2-YR	3-YR	5-YR	7-YR	10-YR	30-YR
3/31/19	2.38	2.42	2.39	2.26	2.21	2.23	2.31	2.41	2.81
6/30/19	2.09	2.09	1.93	1.76	1.71	1.77	1.88	2.01	2.53
Change	-0.29	-0.31	-0.46	-0.50	-0.50	-0.46	-0.43	-0.40	-0.28

Second Quarter 2019 Review: Fixed Income Markets

As of June 30, 2019

Securitized

The securitized market continued to deliver consistent absolute returns during the quarter. Commercial mortgage-backed securities (CMBS) continued to lead the sector during the quarter, with a 3.28% return, followed by residential mortgage-backed securities (RMBS) with a 1.96% return, and asset-backed securities (ABS) with a 1.67% return. Relative to comparable duration Treasuries, which delivered strong performance during the quarter, the securitized market held up well. CMBS delivered 31 bps of excess return and ABS delivered 11 bps of excess return while RMBS, feeling the impact of falling rates, lost 39 bps of excess return. Within the ABS sector, autos returned 1.55% (12 bps excess return) and credit cards returned 1.78% (11 bps excess return).

Investment Grade and High Yield Credit

Building on the strong performance from the first quarter, the Bloomberg Barclays U.S. Corporate Index delivered another strong quarter (4.48%) despite less than stellar performance in May. The Corporate Index was powered by the industrials sector, which returned 4.75% (113 bps excess return), while financials returned 3.92% (99 bps excess return) and utilities returned 4.67% (46 bps excess return). The risk-on trade during the second quarter drove the strong returns across the investment grade corporate sector. The high yield portion of the U.S. corporate bond market, as represented by the ICE BofA ML U.S. High Yield Index, began the year with a yield to worst (YTW) of 8% and an option-adjusted spread (OAS) of 533 basis points. After a strong quarter to begin the year, the High Yield Index followed up with another solid quarter, delivering 2.57% total return and pushing the YTW to 6.06% and the OAS to 407. Back-to-back strong quarters have resulted in a total return of 10.16% since the beginning of the year, marking the best six months to start a year since 2009. The CCC segment of the high yield universe continues to lag other components of the High Yield Index, returning only 0.65% during the quarter while the BB segment (3.16%) and the B segment (2.42%) continued to run strong.

Excess return indicates the return over comparable duration Treasuries. 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.

The views expressed are those of Diamond Hill as of June 30, 2019 and are subject to change. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice. Fixed income portfolio holdings are subject to change and will generally be posted monthly on a 60-day lag at diamond-hill.com.

All Composite returns are net of fees.

The Composite generated a 1.74% total return during the second quarter, compared to 1.48% for the Bloomberg Barclays U.S. 1-3 Year Government/Credit Index. Since inception, the strategy has generated a total return of 4.11% compared to 1.63% 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 during the most recent quarter and since inception.

With concerns around Brexit falling to the background, at least until October, the ongoing trade war and the Federal Open Market Committee (FOMC) continue to drive market volatility and the fluctuation between risk-on and risk-off trades. Markets spent much of the quarter on a roller coaster ride, reaching new records in April only to drop dramatically in May before rallying to finish the quarter in record territory. The early part of the quarter was driven by the FOMC's continued pivot to a more dovish stance as the first two meetings during the quarter reinforced the change in outlook with the FOMC, lowering interest rates on excess reserves 5 basis points (bps) to 2.35%. This change was implemented to bring the Fed Funds effective rate in line with the midpoint of the current range of 2.25 – 2.50%, and it succeeded in dropping the rate from 2.45% to 2.40%. Mid-quarter, we saw the end of Theresa May's run as prime minister of the United Kingdom due to ongoing uncertainty around Brexit, and acceleration in the trade war with China, as well as a brief trade war dust up with Mexico. These geopolitical upheavals, as well as less-than-stellar non-farm payroll numbers for May (only 75,000 jobs added), generated a flight to quality and brought back memories of December 2018's volatility. Fueled by ongoing dovish comments from the FOMC and slightly positive developments from the G-20 Summit in Japan, risk assets roared back to record levels in June. Even rising tensions in the Middle East couldn't derail the strong finish to the quarter.

In one of the most anticipated FOMC meetings in recent years, Federal Reserve Chairman Jerome Powell held the line on rates, keeping Fed Funds in the 2.25 – 2.50% range while laying the groundwork for potential rate cuts in the near future. The overall tone of the meeting was extremely dovish, but it can also be interpreted as defining future cuts as "fine tuning" and not the beginning of a full rate cutting cycle. This conclusion can be reached by examining the increasingly less relevant Dot Plot data that was published after the meeting. The 2020 plot was dropped to

TEAM

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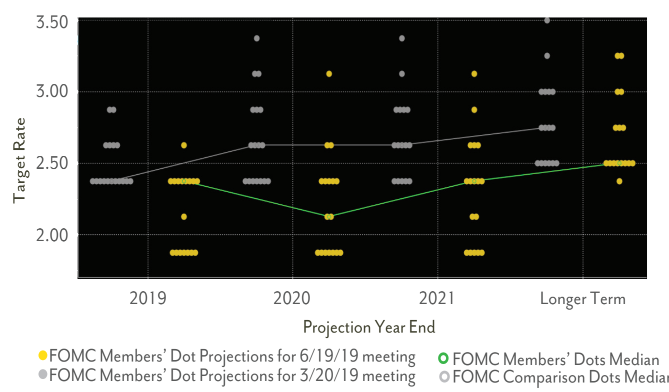
Senior Portfolio Specialist

a median range of 2.1% from 2.6% (reflecting roughly 30 bps of easing from where rates currently stand) and the long-run estimate was lowered to 2.5% from 2.8%. However, the 2021 rate projection only dropped to 2.4% from 2.6%, a clear signal that the Fed views this as a short-term adjustment and not a long-term easing cycle. The Fed's growth assessment was changed from "solid" to "moderate," and the phrase "act as appropriate" was included as well. The meeting marked the first official dissension during Powell's term, as St. Louis Fed President James Bullard voted against the decision to keep rates unchanged, stating that he would prefer to lower the Fed's benchmark rate by 0.25% from its current range. One of the more dovish members of the Fed, Bullard has expressed concerns for months about the U.S. economic outlook.

IMPLIED FED FUNDS TARGET RATE



Source: Bloomberg.

Fixed income assets delivered strong absolute returns across the risk spectrum as the market benefitted from expectations for lower rates and a rally in risk assets. Treasuries delivered over 3% return during the quarter, which represents the sector's best quarter since early 2016. Investment grade corporate debt delivered nearly 4.50% return during the second quarter, securitized held steady by returning 2.04% while the ICE BofA ML U.S. High Yield Index returned 2.57%.

With the Federal Reserve shift from slightly dovish to full dovish, rates continued the rally that began in the first quarter with the ten-year pushing below 2% during the final days of the quarter before finishing the quarter at 2.01%. The markets have gone from an outlook of Fed "pause" to expectations for rate cuts in the very near future, possibly even the July 31 meeting. The tone has shifted from "if" the Fed will lower rates to "when" it will occur and, more importantly, will the initial rate cut be 25 bps or 50 bps.

The 10-year Treasury followed up the first quarter's 3.08% return with its best quarter since early 2016 by generating 4.22% return as the 10-year Treasury rallied from 2.41% at the end of the first quarter to finish at 2.01%. While the curve once again moved lower across all maturities, the biggest impact was felt on the longer end of the curve, with the 30-year Treasury generating 6.76% return during the quarter as the yield moved from 2.81% to 2.53%, the largest quarterly drop since the second quarter of 2016. Maturities from 1-year to 30-year declined an average of 43.3 bps with the largest move occurring with the 2-year and 3-year Treasuries, both declining 50.0 bps. Unlike last quarter, when the three-month Treasury bill was relatively unchanged, during the second quarter it dropped from 2.38% to 2.09% reflecting the potential for rate cuts in the near future.

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 an allocation to below investment grade securities.

As of June 30, 2019, the strategy had a yield to worst (YTW) of 3.50% with an effective duration of 1.30, compared to the Index's YTW of 1.95% and effective duration of 1.89. The decrease in yield for both the strategy (4.00% at the end of last quarter) and the benchmark (2.45%) can be attributed to the downward shift in the lower end of the yield curve. Asset-backed securities (ABS) remain the largest allocation in the strategy and were the strongest contributor to the yield advantage of the portfolio over the benchmark.

Within the securitized sector, ABS delivered strong performance led by auto loans. Residential mortgage-backed securities were a slight detractor during the quarter while commercial mortgage-backed securities contributed to relative performance. The strategy'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.

The Treasury allocation remained steady and 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 147 bps of total 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 TOTAL RETURNS (%)

Inception Date: July 31, 2016

	TRAILING				CALENDAR		
	SINCE INCEPTION	1-YR	YTD	2Q19	7/31/16 - 12/31/16	2017	2018
SHORT DURATION TOTAL RETURN COMPOSITE							
Gross of Fees	4.47	5.55	3.44	1.83	0.88	4.89	3.78
Net of Fees	4.11	5.18	3.25	1.74	0.73	4.54	3.41
BENCHMARKS							
Bloomberg Barclays U.S. 1-3 Yr. Gov./Credit Index	1.63	4.27	2.71	1.48	-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 June 30, 2019

All Composite returns are net of fees.

The Composite generated a 3.14% total return during the second quarter, compared to 3.08% for the Bloomberg Barclays U.S. Aggregate Index. Since inception, the strategy has generated a total return of 3.21% compared to 2.16% for the Index. The goal of the Diamond Hill Core Bond strategy is to outperform the Index over a market cycle. Despite a significant rally in the Treasury market, the strategy outperformed its benchmark during the most recent quarter and has delivered strong relative performance since inception.

With concerns around Brexit falling to the background, at least until October, the ongoing trade war and the Federal Open Market Committee (FOMC) continue to drive market volatility and the fluctuation between risk-on and risk-off trades. Markets spent much of the quarter on a roller coaster ride, reaching new records in April only to drop dramatically in May before rallying to finish the quarter in record territory. The early part of the quarter was driven by the FOMC's continued pivot to a more dovish stance as the first two meetings during the quarter reinforced the change in outlook with the FOMC, lowering interest rates on excess reserves 5 basis points (bps) to 2.35%. This change was implemented to bring the Fed Funds effective rate in line with the midpoint of the current range of 2.25 – 2.50%, and it succeeded in dropping the rate from 2.45% to 2.40%. Mid-quarter, we saw the end of Theresa May's run as prime minister of the United Kingdom due to ongoing uncertainty around Brexit, and acceleration in the trade war with China, as well as a brief trade war dust up with Mexico. These geopolitical upheavals, as well as less-than-stellar non-farm payroll numbers for May (only 75,000 jobs added), generated a flight to quality and brought back memories of December 2018's volatility. Fueled by ongoing dovish comments from the FOMC and slightly positive developments from the G-20 Summit in Japan, risk assets roared back to record levels in June. Even rising tensions in the Middle East couldn't derail the strong finish to the quarter.

In one of the most anticipated FOMC meetings in recent years, Federal Reserve Chairman Jerome Powell held the line on rates, keeping Fed Funds in the 2.25 – 2.50% range while laying the groundwork for potential rate cuts in the near future. The overall tone of the meeting was extremely dovish, but it can also be interpreted as defining future cuts as "fine tuning" and not the beginning of a full rate cutting cycle. This conclusion can be reached by examining the increasingly less relevant Dot Plot data that was published after the meeting. The 2020 plot was dropped to a median range of 2.1% from 2.6% (reflecting roughly 30 bps of easing from where rates currently stand) and the long-run estimate was lowered to 2.5% from 2.8%. However, the 2021 rate projection only dropped to 2.4% from 2.6%, a clear signal that the Fed views this as a short-term adjustment and not a long-term easing cycle. The Fed's growth assessment was changed from "solid" to "moderate," and the phrase "act as appropriate" was included as well. The meeting marked the first official dissension during Powell's term, as St. Louis Fed President James Bullard voted against the decision to keep rates unchanged, stating that he would prefer to lower the Fed's benchmark rate by 0.25% from its current range. One of the more dovish members of the Fed, Bullard has expressed concerns for months about the U.S. economic outlook. Powell's press conference afterwards was much more of a non-event than previous ones, as he restated what was communicated in the official statements "moderate" growth, unemployment remains low, wages slowly rising. Powell did reveal that there was a long conversation around lowering rates but felt that continuing to monitor cross-currents in the global economy was the more prudent option.

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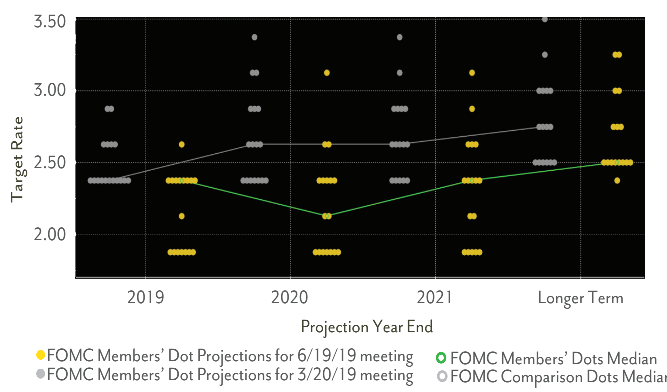
IMPLIED FED FUNDS TARGET RATE



Source: Bloomberg.

Fixed income assets delivered strong absolute returns across the risk spectrum as the market benefitted from expectations for lower rates and a rally in risk assets. Treasuries delivered over 3% return during the quarter, which represents the sector's best quarter since early 2016. Investment grade corporate debt delivered nearly 4.50% return during the second quarter, securitized held steady by returning 2.04% while the ICE BofA ML U.S. High Yield Index returned 2.57%.

With the Federal Reserve shift from slightly dovish to full dovish, rates continued the rally that began in the first quarter with the 10-year pushing below 2% during the final days of the quarter before finishing the quarter at 2.01%. The markets have gone from an outlook of Fed '"pause" to expectations for rate cuts in the very near future, possibly even the July 31 meeting. The tone has shifted from "if" the Fed will lower rates to "when" it will occur and, more importantly, will the initial rate cut be 25 bps or 50 bps.

The 10-year Treasury followed up the first quarter's 3.08% return with its best quarter since early 2016 by generating 4.22% return as the 10-year Treasury rallied from 2.41% at the end of the first quarter to finish at 2.01%. While the curve once again moved lower across all maturities, the biggest impact was felt on the longer end of the curve, with the 30-year Treasury generating 6.76% return during the quarter as the yield moved from 2.81% to 2.53%, the largest quarterly drop since the second quarter of 2016. Maturities from 1-year to 30-year declined an average of 43.3 bps with the largest move occurring with the two-year and three-year Treasuries, both declining 50.0 bps. Unlike last quarter, when the 3-month Treasury bill was relatively unchanged, during the second quarter it dropped from 2.38% to 2.09% reflecting the potential for rate cuts in the near future. The strategy maintained an underweight to Treasuries relative to the index but the longer duration posture of the Strategy's holdings negated the impact of the rate rally across the curve.

The strategy's duration has been maintained within our targeted range of +/-10% of the benchmark's duration. At the end of the second quarter, the strategy's duration was 5.17 compared to the index duration of 5.73, reflecting the long-term viewpoint that interest rates have a greater chance of moving higher over the longer term. Rates rallied throughout the quarter, pushing the duration of the Bloomberg Barclays U.S. Aggregate Index to 5.73 at the end of the second quarter from first quarter's ending level of 5.82. The strategy's overall shorter duration positioning relative to the benchmark detracted from performance during the quarter.

Building on the strong performance from the first quarter, the Bloomberg Barclays U.S. Corporate Index delivered another strong quarter (4.48%) despite a less than stellar month of May. The Index was powered by the industrial sector, which returned 4.75% (113 bps excess return) while financials (3.92%, 99 bps excess) and utilities (4.67%, 46 bps excess) helped to drive the Index performance during the quarter. The risk-on trade during the second quarter pushed the strong returns across the investment grade corporate sector. The strategy's positioning in its corporate allocation detracted from performance because of the significant underweight in industrials and a slight underweight in utilities and the shorter duration positioning in financials.

While the investment grade sector experienced one of the strongest quarters in recent memory, the securitized market continued to deliver consistent absolute returns. Commercial mortgage-backed securities (CMBS) continued to lead the sector during the quarter, with 3.28% return, followed by residential mortgage-backed securities (RMBS) with 1.96% return and asset-backed securities (ABS) returning 1.67%. Relative to comparable duration Treasuries, which delivered strong performance during the quarter, the securitized market held up well. CMBS delivered 31 bps of excess return and ABS 11 bps of excess return while RMBS, feeling the impact of falling rates, lost 39 bps of excess return. Within the ABS sector, autos returned 1.55% (12 bps excess return) and credit cards returned 1.78% (11 bps excess return). The strategy's overweight in the securitized sector contributed to performance during the quarter, with security selection within Agency RMBS 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 TOTAL RETURNS (%)

Inception Date: July 31, 2016

	TRAILING				CALENDAR		
	SINCE INCEPTION	1-YR	YTD	2Q19	7-31/16 - 12/31/16	2017	2018
CORE BOND COMPOSITE							
Gross of Fees	3.53	8.82	6.17	3.23	-2.45	4.64	2.06
Net of Fees	3.21	8.48	6.00	3.14	-2.56	4.33	1.75
BENCHMARKS							
Bloomberg Barclays U.S. Aggregate Index	2.16	7.87	6.11	3.08	-3.14	3.54	0.01

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 – 3/31/19. 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 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 Core Bond Composite is comprised of discretionary non-fee and fee paying non-wrap accounts with a market value over $10M managed according to the firm's Core Bond fixed income strategy. The strategy's investment objective is to maximize total return with the preservation of capital by investing in a diversified portfolio of intermediate and long-term debt securities. The portfolio generally invests at least 80% of its assets in a diversified portfolio of investment grade, fixed income securities and may invest a significant portion or all of its assets in mortgage-related and mortgage-backed securities. The portfolio will typically maintain an average portfolio duration within 20% of the duration of the Bloomberg Barclays U.S. Aggregate Index. The portfolio may invest a significant portion or all of its assets in asset-backed, mortgage-related and mortgage-backed securities at the discretion of DHCM. 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 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. 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 Core Bond separate accounts is as follows: First $50,000,000 = 0.29%; Next $50,000,000 = 0.22%; Above $100 million = 0.18%. 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.** GIPS is a trademark of CFA Institute. CFA Institute has not been involved in the preparation or review of this report/ advertisement.

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	$55.3M	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 June 30, 2019

All Composite returns are net of fees unless noted otherwise.

The Composite generated a 3.11% total return during the second quarter compared to 4.08% for the ICE BofA ML U.S. Corporate & High Yield Index. Year-to-date, the strategy generated an 8.99% total return compared to 9.68% for the Corporate & High Yield Index. For the trailing five years, the strategy generated an annualized total return of 6.24% compared to 4.14% 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 74% of the strategy was in high yield corporate bonds at the end of the second quarter.

The high yield portion of the U.S. corporate bond market, as represented by the ICE BofA ML U.S. High Yield Index, began the quarter with a yield-to-worst (YTW) of 6.48% and an option-adjusted spread (OAS) of 405 basis points (bps). After generating a 2.57% total return for the quarter, the High Yield Index ended the quarter with a 6.06% YTW and OAS of 407 bps. The strong 10.16% year-to-date return for the High Yield Index more than offsets the -4.67% return in the fourth quarter of last year. This is another example of the resilience of the high yield asset class. Over the last three quarters, the High Yield Index generated a 5.02% return compared to the S&P 500 at 2.51% and the Russell 2000 at -6.68%.

The strategy's 6.72% annualized return (gross of fees) over the last five years places it in the 2nd percentile of the eVestment U.S. High Yield Fixed Income Universe. To achieve our investment objectives we had to do especially well as top quartile performance, 5.17% annualized, would not have been sufficient. We are fortunate that five years ago John McClain joined Bill Zox as the second full time fixed income investment professional at Diamond Hill. The high yield market was peaking with a YTW of 5% and an OAS of 350 basis points. To generate a 6.72% annualized return from that starting point we had to continue to hold up well in difficult markets but also capture more of the upside in stronger markets.

TEAM

Bill Zox, CFA Portfolio Manager	**John McClain, CFA** Portfolio Manager
Suken Patel, CFA Assistant Portfolio Manager	**Douglas Gimple** Senior Portfolio Specialist

That is exactly what happened. The strategy was well up in the top quartile of the category during the down markets of the last half of 2014, 2015 and 2018. Performance was more middling during the strongest periods of 2016 and the first half of 2018 but compared to other strategies that held up well in down markets our upside capture was very good. In 2017, we experienced a rare "coupon clipping" year in the high yield market and the strategy was in the 18th percentile.

We understand that markets are competitive and we have to keep getting better to continue to add value. John and Bill have benefitted from working day-to-day with Henry Song, Mark Jackson, and Douglas Gimple, who each joined our team in 2016. Charlie Minor and Wenting He are supporting Henry. Jack Parker and our most recent addition, Cathy Yao, are supporting John, Mark, and Bill. All of us interact daily with the broader Diamond Hill team.

In 2018, rate hikes and quantitative tightening were key drivers of the markets. The Fed was trying to slow the economy down to engineer the elusive soft landing. It was logical that interest rates were rising and PE multiples were contracting causing all major asset classes to be flat to negative.

In 2019, all major asset classes are once again moving in the same direction - in this case, sharply positive. But, unlike 2018, the performance is not logical. The massive rally in Treasuries is discounting something like a 50% probability of recession over the next 18 months. In contrast, the strength of stocks and high yield bonds suggests a low probability of recession. High yield bonds have benefitted from the decline in interest rates and the increase in equity valuation. Our judgment is that the future is likely to unfold somewhere in the middle, which would make both Treasuries and risk assets vulnerable.

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. At the end of the quarter, the strategy's YTW was 4.73% just below the low end of the range based on current headline inflation. The strategy's duration was 2.98, within the typical 2.0-3.5 range and below the High Yield Index duration of 3.53 and the Corporate & High Yield Index duration of 6.83. The duration of the High Yield Index is considerably below the historical 4-4.5 range reflecting the call constrained nature of a large portion of the high yield market. In other words, many high yield bonds have limited potential price upside but significant downside. This is a key justification for the defensive posture of the strategy.

We remain confident that volatility will come back as is typical later in the economic and market cycles. We want to be in a strong position to take advantage of that volatility. As always, we are focused on delivering risk-adjusted returns over a complete market cycle by holding up better during down markets and capturing our fair share of up markets.

PERIOD & ANNUALIZED TOTAL RETURNS (%)

Inception Date: September 30, 2002

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	2Q19
CORPORATE CREDIT COMPOSITE							
Gross of Fees	7.71	9.01	6.72	8.29	8.67	9.25	3.24
Net of Fees	7.21	8.49	6.24	7.80	8.17	8.99	3.11
BENCHMARKS							
ICE BofAML U.S. Corporate & High Yield Index	6.12	6.74	4.14	4.61	10.11	9.68	4.08
ICE BofAML U.S. High Yield Index	8.79	9.22	4.70	7.54	7.58	10.16	2.57

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

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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[1]	3.35%	4.64%	3.43%
2017	22.3B	5 or fewer	652.4M	NA[1]	3.78	3.63	5.60
2016	19.4B	5 or fewer	533.5M	NA[1]	3.96	3.93	6.03
2015	16.8B	5 or fewer	333.5M	NA[1]	2.91	3.82	5.27
2014	15.7B	5 or fewer	220.0M	NA[1]	2.37	3.79	4.44
2013	12.2B	5 or fewer	186.7M	NA[1]	3.32	4.34	6.42
2012	9.4B	5 or fewer	178.4M	NA[1]	3.80	4.00	7.03
2011	8.7B	5 or fewer	146.0M	NA[1]	7.10	5.73	11.00
2010	8.6B	5 or fewer	145.8M	NA[1]	NA[2]	NA[2]	NA[2]
2009	6.3B	5 or fewer	127.6M	NA[1]	NA[2]	NA[2]	NA[2]
2008	4.5B	5 or fewer	112.8M	NA[1]	NA[2]	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 April 2015.

Global Investment Performance Standards

Diamond Hill High Yield Strategy

As of June 30, 2019

All Composite returns are net of fees unless noted otherwise.

The Composite generated a 3.75% total return during the second quarter compared to 2.57% for the ICE BofA ML U.S. High Yield Index. Year-to-date, the strategy generated a total return of 10.55% compared to 10.16% for the High Yield Index. Since inception, the strategy generated an annualized total return of 8.40% compared to 5.94% for the High Yield Index.

The High Yield Index began the quarter with a yield-to-worst (YTW) of 6.48% and an option-adjusted spread (OAS) of 405 basis points (bps). After generating a 2.57% total return for the quarter, the High Yield Index ended the quarter with a 6.06% YTW and OAS of 407 bps. The 10.16% year-to-date return for the High Yield Index more than offsets the -4.67% return in the fourth quarter of last year. This is another example of the resilience of the high yield asset class. Over the last three quarters, the High Yield Index generated a 5.02% return compared to the S&P 500 at 2.51% and the Russell 2000 at -6.68%.

Last quarter, we wrote about the relative attractiveness of certain BBB-rated bonds compared to BB-rated bonds and our willingness to bear more interest rate risk at that point of the cycle even though interest rates remained low. That positioning worked out well and the strategy was in the 2nd percentile of the eVestment U.S. High Yield Fixed Income Universe during the quarter, based on its 3.87% gross of fees return. As interest rates continued to decline and many BBB-rated issuers focused on deleveraging, we reduced our exposure to both BBB- and BB-rated bonds at much higher prices and lower yields. One measure of this shift in positioning is the effective duration of the strategy which declined from 4.18 to 3.76 during the quarter.

TEAM

Bill Zox, CFA Portfolio Manager	**John McClain, CFA** Portfolio Manager
Suken Patel, CFA Assistant Portfolio Manager	**Douglas Gimple** Senior Portfolio Specialist

In 2018, rate hikes and quantitative tightening were key drivers of the markets. The Fed was trying to slow the economy down to engineer the elusive soft landing. It was logical that interest rates were rising and PE multiples were contracting causing all major asset classes to be flat to negative.

In 2019, all major asset classes are once again moving in the same direction - in this case, sharply positive. But, unlike 2018, the performance is not logical. The massive rally in Treasuries is discounting something like a 50% probability of recession over the next 18 months. In contrast, the strength of stocks and high yield bonds suggests a low probability of recession. High yield bonds have benefitted from the decline in interest rates and the increase in equity valuation. Our judgment is that the future is likely to unfold somewhere in the middle, which would make both Treasuries and risk assets vulnerable.

We remain confident that volatility will come back as is typical later in the economic and market cycles. We want to be in a strong position to take advantage of that volatility. As always, we are focused on delivering competitive high yield returns over a complete market cycle by holding up better during down markets and capturing our fair share of up markets.

Diamond Hill High Yield Strategy

PERIOD & ANNUALIZED TOTAL RETURNS (%)

Inception Date: December 31, 2014

	SINCE INCEPTION	3-YR	1-YR	YTD	2Q19
HIGH YIELD COMPOSITE					
Gross of Fees	8.81	10.46	10.32	10.81	3.87
Net of Fees	8.40	9.91	9.77	10.55	3.75
BENCHMARKS					
ICE BofAML U.S. High Yield Index	5.94	7.54	7.58	10.16	2.57

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] Statistics are not presented because 36 monthly returns are not available.

This composite was created in January 2016.

Global Investment Performance Standards

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