Diamond Hill Core Bond Fund Commentary

As of June 30, 2017

All Fund returns based on Class I shares.

The Fund generated a 1.76% total return during the second quarter, compared to 1.45% for the Bloomberg Barclays U.S. Aggregate Index. Since its inception on July 5, 2016, the Fund has generated a total return of 0.71% compared to -1.01% for the Index. The goal of the Diamond Hill Core Bond Fund is to outperform the Index over a market cycle.

PORTFOLIO MANAGEMENT

Henry Song, CFA
Portfolio Manager

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Portfolio Manager

Despite potential economic headwinds that arose during the quarter, the Federal Reserve appears to be fully committed to their plan of gradually increasing the federal funds target rate over time. The Fed opted to maintain rates at their current level after their May 2 meeting and provided clear indication of their plans to continue down the path of normalization. Despite a less-than-stellar jobs report (+138,000) for May and a slight decrease in inflation, the Fed moved forward with their rate hike in June. More importantly, the Fed provided an outline of their plan to wind down the balance sheet over the coming years.

Key points of the proposed Policy Normalization Principles and Plans include:

- 'Caps' are defined as the maximum amount per month that will be permitted to roll-off (not reinvested). Proposal is to begin slowly and build up over time.
- 'Caps' for Treasuries begin at $6 billion per month, with an increase of $6 billion every three months, to a maximum level of $30 billion per month.
- 'Caps' for mortgage-backed securities begin at $4 billion per month, with an increase of $4 billion every three months, to a maximum level of $20 billion per month.
- Fed reserves the right to slow or even reverse the process if the economy struggles to grow or if we hit another recession.

Even as the Fed continues to push the shorter end of the yield curve higher by increasing its target rate, the longer end continues to rally. Lack of yield in the European bond market is one reason why yields on the longer end of the U.S. curve remain so low. However, the flattening of the curve saw some relief near the end of the quarter as the market began anticipating a tightening of the European Central Bank's policy based on ECB President Mario Draghi's comments on June 27. This increased the yield on the German bund, which serves as a bellwether for European interest rates. Longer U.S. Treasury yields moved higher as well.

	3/31/17	6/27/17	6/30/17	QUARTER-OVER-QUARTER CHANGE
2-Year U.S. Treasury	1.26%	1.37%	1.38%	+12 bps
10-Year U.S. Treasury	2.39	2.21	2.30	-9 bps
10-Year German Bund	0.33	0.37	0.46	+13 bps

Source: Bloomberg

The Fund's duration has been maintained within our targeted range of +/- 10% of the benchmark's duration. At the end of the second quarter, the Fund's duration was roughly 90% of the benchmark's duration (5.41 and 6.01, respectively), reflecting the long-term viewpoint that interest rates have a greater chance of moving higher over the coming months and quarters. The Fund's overall shorter duration positioning relative to the benchmark minimally detracted from performance during the quarter.

The securitized sector was the primary driver of relative return, led by strong security selection and sector positioning. Continued demand in the marketplace drove spreads even tighter across the entire space, even as heavy issuance continued to hit the marketplace. Year-to-date new issuance in the consumer asset-backed securities market is currently at its highest level since the financial crisis, 6.8% ahead of the previous six-month high achieved in 2014. Asset-backed securities, along with commercial mortgage-backed securities, were the primary contributors to relative performance in the securitized sector as spreads tightened due to high demand. With agency mortgage-backed securities still under pressure from the Fed's involvement in the marketplace, this sector remains overvalued and, relative to other securitized assets, not very attractive.

DIAMOND HILL | FUNDS

Investment grade credit continued its resurgence, with the Bloomberg Barclays U.S. Corporate Index delivering a return of 2.54% in the second quarter. The Fund's underweight allocation to investment grade credit as well as sector allocation within the investment grade space detracted from relative performance. The largest detractor was our underweight position in industrials, which rallied during the quarter. Utilities and financials also slightly detracted from relative performance.

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

PERIOD AND AVERAGE ANNUAL TOTAL RETURNS AS OF JUNE 30, 2017

	SINCE INCEPTION (7/5/2016)	YTD	2Q17	EXPENSE RATIO GROSS	EXPENSE RATIO NET
RETURNS AT NAV (WITHOUT SALES CHARGE)					
Class A	0.33%	2.67%	1.59%	0.78%	0.78%
Class I	0.71	2.91	1.76	0.48	0.48
Class Y	0.78	2.95	1.79	0.38	0.38
BENCHMARK					
Bloomberg Barclays U.S. Aggregate Index	-1.01	2.27	1.45	—	—
RETURNS AT POP (WITH SALES CHARGE)					
Class A	-3.16	-0.90	-1.93	0.78	0.78

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 June 30, 2017, are subject to change and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice.

The performance data quoted represents past performance; past performance does not guarantee future results. *The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the most recent month-end, within 7 business days, at diamond-hill.com.*

Performance returns assume reinvestment of all distributions. Returns for periods less than one year are not annualized. The returns at POP reflect the maximum sales charge applicable to each class. The maximum sales charge for A shares is 3.50%; I shares and Y shares have no sales charge.

Fund holdings subject to change without notice.

The Bloomberg Barclays U.S. Aggregate Index is an unmanaged index representing the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through, and asset-backed securities. The Bloomberg Barclays U.S. Corporate Index is an unmanaged index measuring the investment grade, fixed-rate, taxable corporate bond market. It includes USD Denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers. These indices do not incur fees and expenses (which would lower the return) and are not available for direct investment.

An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other important information about the Fund(s) can be found in the Fund's(s) prospectus or summary prospectus which can be obtained at diamond-hill.com or by calling 888.226.5595. Please read the prospectus or summary prospectus carefully before investing. The Diamond Hill Funds are distributed by BHIL Distributors, 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.