Diamond Hill High Yield Strategy

As of June 30, 2017

All Composite returns are net of fees.

The Diamond Hill High Yield Composite* generated a 3.01% total return during the second quarter, compared to 2.14% for the Bank of America Merrill Lynch U.S. High Yield Index. Year to date, the Composite generated a total return of 6.92% compared to 4.91% for the High Yield Index. Since inception on December 31, 2014, the Composite generated an annualized total return of 9.00% compared to 6.68% for the High Yield Index.

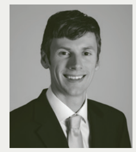
While we are pleased with the Composite's performance compared to the High Yield Index, it is important to note that the High Yield Index is not an investable alternative. Over our five-year time horizon, performance relative to peers will be the best metric to evaluate the strategy. We discuss high yield indices, investable passive alternatives and active management in "Debunking the High Yield Index and High Yield ETFs" available at www.diamond-hill.com/debunking-high-yield-index-high-yield-etfs.

Coming into the year, the strategy's yield-to-worst of 6.44% was 25 basis points higher than the High Yield Index yield-to-worst of 6.19%. At the end of the quarter, the strategy's yield-to-worst of 5.37% was 31 basis points lower than the High Yield Index yield-to-worst of 5.68%, marking an almost 60 basis point shift since the beginning of the year relative to the Index. The strategy's yield-to-worst does not reflect a top-down market call. Instead, it is a product of the values that we identify on a bottom-up basis and our desire to be well-positioned to take advantage of any bouts of volatility and illiquidity in the high yield market. Because of our five-year time horizon, we have no need to chase an overheated market. The first four quarters of the strategy's history were difficult for the high yield market while the last six quarters have been quite strong. Our long-term time horizon and other structural advantages have allowed us to perform well in both environments.

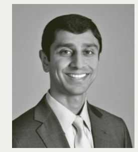
We take into account both price and value when we look at our market, and while value hasn't materially changed this year, price has become more expensive. As a result, we haven't been finding as many bonds trading at a substantial discount to our estimate of intrinsic value. Instead of investing more in less-attractive bonds, we have increased our concentration in our top 10 holdings from 33.4% at the end of 2016 to 42% at the end of the second quarter. Further, we have reduced our CCC and below exposure from 5.8% to 3.1%. Finally, energy exposure is another proxy for risk. The strategy's exposure is actually up on the year from 7.7% to 9.5%, almost entirely due to our increased exposure in **Energen Corp. 7.125% due 2028** which went from 4.7% to 6.4%. However, the strategy's 9.5% total energy weighting compares to the High Yield Index energy weighting of 14%.

PORTFOLIO MANAGEMENT

Bill Zox, CFA
Portfolio Manager



John McClain, CFA
Portfolio Manager



Suken Patel, CFA
Asst. Portfolio Manager

The energy industry led the high yield market down from the middle of 2014 to early 2016. West Texas Intermediate has moved from $105 a barrel to just above $46, down more than 50% during this timeframe. After a powerful rebound last year, energy is once again the weakest industry in the high yield market this year with option-adjusted spread moving from 425 to 487 basis points and a total return of 1.34% versus the High Yield Index total return of 4.91%. The strategy's energy weighting is well below that of the High Yield Index but we are willing to add materially to the allocation if the prices of high yield energy bonds fall to our buy points. We expect high yield energy bonds to come under pressure to induce producers to cut production in the oversupplied market that we foresee in 2018.

Energen Corp. 7.125% due 2028 was the largest contributor to performance during the second quarter. This bond is the strategy's largest single position and has benefited from both strong operational performance and takeover speculation as activist hedge funds Corvex Management, Highfields Capital, and Elliott Management all have announced meaningful stakes in the company. If a takeover were to occur, we believe our bonds would be made whole as is contractually stipulated if the company decided to redeem the bonds. The make-whole price is dependent on when this would occur and the price of the appropriate Treasury bond. Currently, the make-whole price is substantially higher than the market price of the bonds. We not only search for good credits but also for bond structures that provide the best return opportunities.

Conduent Finance, Inc. 10.5% due 2024 was the second largest contributor to performance during the second quarter. Conduent benefited from its high coupon and reasonable valuation. Since its spinoff from Xerox at the end of last year, Conduent has made progress on margin improvement and free cash flow generation remains on track. It is also important to note that we have reduced our exposure by more than 150 basis points during the quarter as bond prices are up nearly 20 points since new issue in November 2016. Price and value dictate our position sizes and Conduent still remains a top 10 holding.

DIAMOND HILL CAPITAL MANAGEMENT

*Investments discussed are based on a representative portfolio and there is no assurance that Diamond Hill will make investments in a new client's portfolio with the same or similar characteristics as the representative portfolio presented. The representative portfolio is presented for discussion purposes only and is not a reliable indicator of the performance or investment profile of the Composite.

With our deep and talented research team we are always willing to step into a market that is overreacting to near-term issues or otherwise unwilling to reflect long-term fundamental value. We saw several opportunities to do so during the first half of the year and we believe we will continue to have idiosyncratic opportunities in the future when investors overreact to short-term volatility. **Pilgrim's Pride Corp. 5.75% due 2025** was a large detractor from performance and was also a new position during the quarter. We became interested in the debt as headlines swirled around its controlling shareholder JBS (79% ownership) and the holding company of JBS, J&F Investimentos S.A. The Batista family paid personal fines for its role in paying bribe s to Brazilian state-run banks and pension funds. J&F was ordered to pay more than $3 billion in fines over a 25-year period to settle five probes. The fine corresponds to 5.6% of the revenues earned by J&F holdings in 2016. While we believe there will continue to be many headlines around J&F and JBS it is important to note that we can analyze the fines levied and the impact to Pilgrim's Pride. Further, Pilgrim's Pride is a U.S.-domiciled public company that has an independent management team, low leverage, strong free cash flow, and good long-term operational trends. J&F fines are levied at the holding company and not at JBS USA or Pilgrim's Pride. J&F will most likely sell some subsidiaries to address the fines.

Frontier Communications Corp. 11.0% due 2025 was also a detractor from performance during the quarter. On the positive side, Frontier reduced its dividend by more than 60% and showed some signs of progress with cost savings, pricing, and new customer adds. On the negative side, Frontier continues to lose too many customers and the pace of deleveraging is expected to be slow. Improvement in customer churn is important.

Selected New and Eliminated Positions

We are once again selective in the new issue market participating in six new offerings: **Century Communities, Inc. 5.875% due 2025**, **Provident Funding Associates 6.375% due 2025**, **USIS Merger Sub, Inc. 6.875% due 2025**, **KAR Auction Services, Inc. 5.125% due 2025**, **Laureate Education 8.25% due 2025**, and **FirstCash, Inc. 5.375% due 2024**.

Onex USI Acquisition Corp. 7.75% due 2021, **Greektown Holdings LLC 8.875% due 2019**, and **HUB International Ltd. 9.25% due 2021** were called.

We eliminated our position in **The Fresh Market 9.75% due 2023**. While it was a strong contributor during the quarter we are not satisfied with the investment outcome as the bonds declined from $99 issue price in April 2016 to the mid-$80s in the second quarter when we fully exited the position. Due to poor operational results, we had reduced our exposure and then fully exited following the announcement that Amazon would acquire Whole Foods. We believe this transaction will have significant implications on the U.S. grocery market and The Fresh Market has very high customer overlap with Whole Foods. Further, The Fresh Market must improve its value proposition through lower prices which will become harder to do in competition with Amazon. The grocery industry is already hyper-competitive with thin margins. With Whole Foods (at the high end) having deeper pockets and most likely a better value proposition, and Aldi and Lidl (at the low end) aggressively expanding into the U.S., we may see many casualties in this space over the next five years. Our margin of safety evaporated and we exited the position at a loss as the thesis had become impaired.

Finally, we continued to add to our allocation to high yield asset-backed securities (ABS) because the opportunities in the higher-rated portion of the high yield ABS market compare favorably to the BB portion of the high yield corporate bond market.

TOP 5 CONTRIBUTORS

SECURITY NAME	2Q17 CONTRIBUTION	POSITION AS OF 2Q17
Energen Corp. 7.125% due 2028	0.32%	6.2%
Conduent Finance, Inc. 10.5% due 2024	0.17	3.7
Springleaf Finance Corp. 8.25% due 2023	0.16	1.0
Nationstar Capital Group, Inc. 6.5% due 2022	0.15	4.2
Kindred Healthcare, Inc. 8.75% due 2023	0.14	1.2

TOP 5 DETRACTORS

SECURITY NAME	2Q17 CONTRIBUTION	POSITION AS OF 2Q17
Pilgrim's Pride Corp. 5.75% due 2025	-0.04%	1.9
Frontier Communications Corp. 11.0% due 2025	-0.01	1.6
Horizon Pharma, Inc. 8.75% due 2024	-0.01	0.8
Quad Graphics, Inc. 7.0% due 2022	0.00	0.0
Carrizo Oil & Gas, Inc. 7.5% due 2020	0.00	0.0

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2014

	SINCE INCEPTION	1-YR	YTD	2Q17
HIGH YIELD COMPOSITE				
Gross of Fees	9.33	15.18	7.18	3.13
Net of Fees	9.00	14.61	6.92	3.01
BENCHMARKS				
BofA ML U.S. High Yield Index	6.68	12.75	4.91	2.14

CALENDAR YEAR RETURNS (%)

	2015	2016
HIGH YIELD COMPOSITE		
Gross of Fees	1.02	15.40
Net of Fees	1.02	14.82
BENCHMARKS		
BofA ML U.S. High Yield Index	-4.64	17.49

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 – 3/31/17. 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. 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 High Yield 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 High Yield fixed income strategy. The strategy's investment objective is to generate high current income with the opportunity for capital appreciation over a five year time horizon. The strategy generally invests in corporate debt securities that are related below investment grade or are unrated. 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 BofA Merrill Lynch U.S. High Yield Index is comprised of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. 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 High Yield separate accounts is as follows: First $50,000,000 = 0.60%; Over $50,000,000 = 0.50%. For calendar year end 2015, the non-fee paying account percentage of the Composite is 100%. 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. The Global Investment Performance Standards are 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	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	BofA ML U.S. High Yield Index
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