Diamond Hill Short Duration Total Return Fund Commentary

As of June 30, 2017

All Fund returns based on Class I shares.

The Fund generated a 1.24% total return during the second quarter, compared to 0.31% 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 3.71% compared to 0.26% 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.

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.

PORTFOLIO MANAGEMENT

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Portfolio Manager

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Portfolio Manager

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

It is important to note that this 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 June 30, 2017, the Fund had a yield-to-worst of 3.43% and effective duration of 1.85, compared to the Index's yield-to-worst of 1.58% and effective duration of 1.94. Asset-backed securities (ABS) remain the largest allocation in the Fund and contribute the majority of the yield in the portfolio. Within the ABS sector, consumer ABS was the primary contributor to relative performance, followed by automobile and equipment ABS. Non-agency commercial mortgage-backed securities also contributed to the overall yield of the portfolio.

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An underweight allocation to industrials detracted from relative return, but was partially offset by the Fund's slightly longer duration in industrials relative to the benchmark. The Fund has not invested in non-corporate credit such as sovereigns and supranationals, and the absence of these sectors added to relative performance as they retreated slightly after a strong first quarter.

The Fund's minimal allocation to the U.S. Treasury sector detracted from performance as this component of the Index generated slightly positive returns during the quarter.

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 JUNE 30, 2017

	SINCE INCEPTION (7/5/2016)	YTD	2Q17	EXPENSE RATIO GROSS	EXPENSE RATIO NET
RETURNS AT NAV (WITHOUT SALES CHARGE)					
Class A	3.43%	2.22%	1.19%	0.83%	0.83%
Class I	3.71	2.42	1.24	0.53	0.53
Class Y	3.90	2.58	1.37	0.43	0.43
BENCHMARK					
Bloomberg Barclays U.S. 1-3 Yr. Gov./Credit Index	0.26	0.72	0.31	—	—
RETURNS AT POP (WITH SALES CHARGE)					
Class A	1.11	-0.07	-1.06	0.83	0.83

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 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 2.25%; I shares and Y shares have no sales charge.

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.

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.