

(closed to new investors)

The Fund increased 6.52% (Class I) during the quarter, compared to a 6.12% increase in the Russell 2500 Index.

The Fund's holdings in the financials sector provided the largest contribution to absolute return, followed by holdings in the information technology, industrials, and consumer discretionary sectors. Holdings in the health care and consumer staples sectors were the primary detractors from return.

The Fund's outperformance relative to the Russell 2500 Index was primarily driven by security selection in the information technology and real estate sectors as well as an overweight position in the financials sector. Underweight positions in the health care and real estate sectors also contributed to relative return. Security selection in the materials, financials, and energy sectors detracted from relative return.

Best Performers

- Shares of property and casualty insurance company **Endurance Specialty Holdings Ltd.** increased after the company was acquired by Japanese insurer Sampo. Endurance has a strong leader with the right alignment of incentives, and the company was able to create significant value for shareholders despite facing challenging industry headwinds.
- Regional banks **BankUnited, Inc.** and **First Horizon National Corp.** outperformed along with other bank stocks, which rallied after the election. **SVB Financial Group** was notably strong given that the company stands to benefit more from increasing interest rates than many other banks.
- Shares of rental and leasing services company **Aaron's, Inc.** rose amid a continuation of recent fundamental trends. While total revenue declined, the company's Progressive division reported strong revenue growth. Aaron's continues to outperform many competitors, particularly Rent-A-Center, and we believe stabilization in the core business will result in better earnings-per-share and per-share value growth over time.

PORTFOLIO MANAGEMENT



Chris Welch, CFA
Portfolio Manager



Jenny Hubbard, CFA
Asst. Portfolio Manager



Tom Schindler, CFA
Asst. Portfolio Manager

Worst Performers

- Insurance broker **Willis Towers Watson PLC** underperformed after reporting disappointing quarterly earnings. The company is showing modest benefits from merger cost savings, but organic growth has been significantly weaker than management's guidance and below our expectations.
- Shares of consumer and commercial products manufacturer **Newell Brands, Inc.** declined after the company issued forward guidance that was below investor expectations. Additionally, investors became concerned over the company's level of debt. We believe the company will continue to have opportunities in the coming years to cut costs, divest non-core businesses, and pay down debt.
- Cosmetics company **Coty, Inc. (CIA)** declined after the company announced weak quarterly results. Organic sales declined, and management cited issues related to the integration of Procter & Gamble's Specialty Beauty Business. Management expects a similar level of weakness in the first quarter, but believes the second half of the year will show improvement.
- Shares of processed and packaged goods manufacturer **B&G Foods, Inc.** fell after reporting disappointing quarterly results, with more than half of the sales decline attributed to the TrueNorth brand and maple syrup. The company also experienced issues related to the integration of the Green Giant acquisition.
- Medical device manufacturer **Orthofix International N.V.** underperformed despite reporting strong margin growth driven by investments made over the last two years in business infrastructure and sales support. However, revenue growth was sluggish, and the company will have to improve sales growth in its Spine and Biologics businesses to address investor concerns about the sustainability of its overall growth profile.



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New Positions

We took advantage of the price weakness in real estate investment trusts (REITs) following the rise in bond yields to purchase shares of **CubeSmart**. We believe the storage business is one of the best segments in the REIT market with good economies of scale, brand awareness, high barriers to entry, and high cash margins on low capital expenditures. CubeSmart has a strong franchise and good balance sheet and we believe management has made improvements that will pay long-term dividends. We received shares of electric utility **Fortis, Inc.** when it acquired ITC Holdings Corp. **Treehouse Foods, Inc.** is the largest private label food and beverage manufacturer in North America with a strong track record of growth and value creation for shareholders. We initiated a

position on a sharp decline in its stock price following a disappointing quarter. The company is facing troubles in integrating its recent acquisition of private brand business from Conagra Brands, but its initial corrective actions have shown promising results.

Eliminated Positions

We sold our long-held position in security and protection services company **Brink's Co.** after the stock increased materially in 2016. We believe expected margin improvement has already been priced into the stock, and are not confident in Brink's ability to further close the margin gap with competitors. Electric utility company **ITC Holdings Corp.** was acquired by Fortis, Inc., eliminating our position.

PERIOD AND AVERAGE ANNUAL TOTAL RETURNS AS OF DECEMBER 31, 2016

| | SINCE INCEPTION (12/30/05) | 10-YR | 5-YR | 3-YR | 1-YR | YTD | 4Q16 | TOTAL EXPENSE RATIO |
|---------------------------------------|-------------------------------|-------|--------|-------|--------|--------|-------|------------------------|
| RETURNS AT NAV (WITHOUT SALES CHARGE) | | | | | | | | |
| Class A | 9.18% | 9.12% | 15.76% | 8.44% | 17.81% | 17.81% | 6.41% | 1.25% |
| Class C | 8.39 | 8.32 | 14.91 | 7.63 | 16.98 | 16.98 | 6.26 | 2.00 |
| Class I | 9.54 | 9.47 | 16.08 | 8.73 | 18.18 | 18.18 | 6.52 | 0.95 |
| Class Y | 9.38 | 9.34 | 16.23 | 8.88 | 18.29 | 18.29 | 6.53 | 0.85 |
| BENCHMARK | | | | | | | | |
| Russell 2500 Index | 8.43 | 7.69 | 14.54 | 6.93 | 17.59 | 17.59 | 6.12 | — |
| RETURNS AT POP (WITH SALES CHARGE) | | | | | | | | |
| Class A | 8.67 | 8.56 | 14.57 | 6.60 | 11.94 | 11.94 | 1.07 | 1.25 |
| Class C | 8.39 | 8.32 | 14.91 | 7.63 | 15.98 | 15.98 | 5.26 | 2.00 |

Risk Disclosure: There are specialized risks associated with small capitalization issues, such as market illiquidity and greater market volatility, than large capitalization issues.

The views expressed are those of the portfolio managers as of December 31, 2016, 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. Class Y shares include Class A share performance achieved prior to the creation of Class Y shares. These total return figures may reflect the waiver of a portion of a Fund's advisory or administrative fees for certain periods. Without such waiver of fees, the total returns would have been lower. The returns at POP reflect the maximum sales charge applicable to each class. The maximum sales charge for A shares is 5.00%; C shares have a maximum contingent deferred sales charge (CDSC) of 1.00% for redemptions within the first year of purchase; I shares and Y shares have no sales charge.

Fund holdings subject to change without notice.

The Russell 2500 Index is an unmanaged market capitalization-weighted index comprised of the smallest 2,500 companies by market capitalization in the Russell 3000 Index, which is comprised of the 3,000 largest U.S. companies by total market capitalization. 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/SIPC). 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.

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MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF DECEMBER 31, 2016

| | | | |
|-----------------------------------|------|-----------------------------|------|
| Aaron's, Inc. | 2.4% | Fortis, Inc. | 0.5% |
| B&G Foods, Inc. | 1.9 | ITC Holdings Corp. | 0.0 |
| BankUnited, Inc. | 2.8 | Newell Brands, Inc. | 1.5 |
| Brink's Co. | 0.0 | Orthofix International N.V. | 1.1 |
| Coty, Inc. (CI A) | 1.0 | SVB Financial Group | 1.2 |
| CubeSmart | 0.8 | Treehouse Foods, Inc. | 0.8 |
| Endurance Specialty Holdings Ltd. | 1.9 | Willis Towers Watson PLC | 4.3 |
| First Horizon National Corp. | 1.6 | | |

Mentioned securities not held in the Diamond Hill Small-Mid Cap Fund: Conagra Brands, Inc., Procter & Gamble Co., Rent-A-Center, Inc.

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.