

(closed to new investors)

The Composite increased 2.66%, net of fees, during the quarter compared to a 4.74% increase in the Russell 2500 Index and a 3.83% increase in the Russell 2500 Value Index.

The Composite's holdings in the industrials, financials, consumer discretionary, and energy sectors made the largest contribution to absolute return. Holdings in the materials and health care sectors were the largest detractors from absolute return.

The Composite's underperformance relative to the Russell 2500 Index was primarily driven by security selection in the materials, health care, and information technology sectors. An overweight allocation in the consumer staples sector and cash also detracted from relative return. Security selection in the energy and industrials sectors made the largest contribution to relative return.

Best Performers

- Shares of global automotive supplier **BorgWarner, Inc.** outperformed amid positive reaction to the company's quarterly results and investor day, which provided more clarity on how the company is positioned to succeed in an auto industry transitioning to electric vehicles.
- Outperformance of oil and gas exploration and production (E&P) company **Cimarex Energy Co.** likely reflects a rebound in oil prices during the month of September. Negative revisions to production growth expectations for the domestic E&P industry along with positive revisions to global oil demand growth create a path to a faster rebalancing of global oil inventories. In contrast to the rest of the domestic E&P industry, Cimarex reported strong production growth execution as others revised production guidance lower.
- Shares of rental car company **Avis Budget Group, Inc.** rose sharply, recovering significantly from early 2017 losses. The company reported positive pricing in July, which could represent an inflection point for the industry in getting rental fleets appropriately sized relative to demand. In addition, Hurricanes Harvey and Irma should lead to some increase in replacement demand for autos, bolstering used car prices.
- Homebuilder **NVR, Inc.** reported solid quarterly results, particularly the company's gross margin. Order growth remained steady, absorptions rose, and returns on capital continue to improve. The company continues to be one of the best operators in the U.S. homebuilding industry.

PORTFOLIO MANAGEMENT



Chris Welch, CFA
Portfolio Manager



Jenny Hubbard, CFA
Asst. Portfolio Manager



Tom Schindler, CFA
Asst. Portfolio Manager

- Food products manufacturer **Post Holdings, Inc.** reported solid quarterly results. The integration of the Weetabix business purchased earlier in the year is on schedule and the company recently announced the acquisition of Bob Evans Farms.

Worst Performers

- Shares of consumer and commercial products manufacturer **Newell Brands, Inc.** underperformed. Although quarterly results were in line with consensus estimates, the fundamentals were weaker than the headline numbers suggested. North American core sales growth was marginal, with a large portion of the growth driven by Elmer's glue and the "slime" fad. The company continues to gain market share in its core categories, but is heavily exposed to traditional retailers that are facing significant challenges.
- Shares of hospital operator **LifePoint Health, Inc.** fell due to Graham-Cassidy – the most recent "repeal and replace proposal" – and ongoing soft utilization trends in the industry. With health care legislation failing yet again and sales comparisons becoming easier, we believe the company should rebound heading into next year.
- Networking and communications company **CommScope Holding Co., Inc.** delivered weak second-quarter results and a disappointing third-quarter outlook.
- Coating products manufacturer **Axalta Coating Systems Ltd.** is facing higher-than-expected raw material input prices, as is the rest of the industry. In addition, volumes were weaker than expected due to customer inventory destocking in the refinish business. We believe these short-term issues should abate over time as Axalta increases prices and customer demand patterns return to normal.
- Shares of commercial property and casualty (P&C) insurance company **XL Group Ltd.** declined along with other reinsurance peers in the aftermath of one of the worst hurricane seasons in recent years. Hurricanes Harvey, Irma, and Maria, along with other events such as the Mexico earthquakes, are likely to produce a significant loss for the P&C industry. While this will have some book value impact, we believe offsetting positive impacts on industry pricing will benefit XL Group.



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New Positions

We initiated a position in real estate investment trust **American Campus Communities, Inc.**, the largest owner in the small-but-growing student housing industry. The company owns properties on or near U.S. university campuses and has a pipeline of on-campus developments through partnerships with major schools. It benefits from the student housing market's high occupancy and lower-risk, lower-volatility rent environment. The company is able to leverage its scale nationally and at individual universities to spread advertising costs and generate operating income growth. We also purchased shares of regional airline **Allegiant Travel Co.**, a low-cost provider of air travel to vacation destinations across the United States. Allegiant's unique route network and focus on cost minimization make it an attractive business to own for the long term. We initiated a position in life insurance and annuity provider **Brighthouse Financial, Inc.** after it was spun off from MetLife, Inc. and the share price declined to a discount to our estimate of intrinsic value. Although the company is sensitive to capital markets due to a large block of historical annuities, we believe significant excess capital and prudent hedging will help manage this risk. We expect Brighthouse to return significant amounts of capital to shareholders over the long term.

Eliminated Positions

We sold our shares of diversified machinery manufacturer **Dover Corp.** as the stock reached our estimate of intrinsic value. We sold our shares of office products retailer **Staples, Inc.** in an all-cash buyout by private equity firm Sycamore Partners.

Diamond Hill Small-Mid Cap Strategy

As of September 30, 2017

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PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2005

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	3Q17
SMALL-MID CAP COMPOSITE							
Gross of Fees	10.47	10.80	16.23	11.67	14.31	7.03	2.87
Net of Fees	9.66	9.99	15.44	10.89	13.50	6.45	2.66
BENCHMARKS							
Russell 2500 Index	8.83	8.19	13.86	10.60	17.79	11.00	4.74
Russell 2500 Value Index	8.07	7.59	13.25	9.94	15.75	5.86	3.83

CALENDAR YEAR RETURNS (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
SMALL-MID CAP COMPOSITE										
Gross of Fees	0.52	-29.38	41.71	24.74	-2.96	16.93	43.32	8.43	2.45	19.31
Net of Fees	-0.22	-29.99	40.52	23.72	-3.62	16.19	42.39	7.70	1.75	18.47
BENCHMARKS										
Russell 2500 Index	1.38	-36.79	34.39	26.71	-2.51	17.88	36.80	7.07	-2.90	17.59
Russell 2500 Value Index	-7.27	-31.99	27.68	24.82	-3.36	19.21	33.32	7.11	-5.49	25.20

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 – 6/30/17. Diamond Hill's current verification firm is ACA Compliance Group. 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. In addition the Small-Mid Cap Composite has received a Performance Examination from 12/31/05 – 6/30/17. The verification and performance exam reports are available upon request. 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 Small-Mid Cap Composite is comprised of discretionary fee paying non-wrap accounts managed according to the firm's Small-Mid Cap equity strategy. The strategy's investment objective is to achieve long-term capital appreciation by investing in small and medium capitalization companies selling for less than our estimate of intrinsic value. The Composite typically invests in small and medium capitalization companies which are defined as those companies with a market capitalization between \$500 million and \$10 billion (or, if greater, the maximum market capitalization of companies generally within the capitalization range of the Russell 2500 Index) at the time of purchase. 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 Russell 2500 Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 2,500 smallest companies, on a market capitalization basis, in the Russell 3000 Index. The Russell 2500 Value Index is shown as additional information. This index is an unmanaged market capitalization weighted index measuring the performance of the small and midcap value segment of the U.S. equity universe including those Russell 2500 Index companies with lower expected growth values. The Russell 3000 Index is an unmanaged market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. 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 Small-Mid Cap separate accounts is as follows: First \$20,000,000 = 0.95%; Over \$20,000,000 = 0.75%. 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	SMALL-MID CAP COMPOSITE			3-YR STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management (Gross of Fees)	Dispersion (Gross of Fees)	Small-Mid Cap Composite	Russell 2500 Index
2016	\$19.4B	18	\$3.0B	0.05%	11.25%	13.67%	13.17%
2015	16.8B	12	1.9B	0.17	11.09	12.42	12.02
2014	15.7B	11	1.1B	0.13	11.20	11.67	11.25
2013	12.2B	9	586.7M	0.39	14.51	15.63	15.07
2012	9.4B	6	233.7M	0.10	16.13	18.97	18.41
2011	8.7B	6	189.2M	0.05	24.12	23.40	24.23
2010	8.6B	6	97.2M	0.16	NA	NA	NA
2009	6.3B	6	64.1M	1.20	NA	NA	NA
2008	4.5B	8	47.9M	0.53	NA	NA	NA
2007	4.4B	9	70.4M	0.15	NA	NA	NA

NA = Not Applicable

This composite was created in October 2013.

**Global Investment
Performance Standards**