

The Composite increased 8.10%, net of fees, during the quarter compared to a 6.34% increase in the Russell 3000 Index and a 5.08% increase in the Russell 3000 Value Index.

The Composite's holdings in the consumer discretionary, industrials, and financials sectors provided the largest contribution to absolute return, while the consumer discretionary sector detracted slightly from return.

The Composite's outperformance relative to the Russell 3000 Index was driven by favorable security selection in the health care sector followed by selection in the industrials, consumer discretionary, and real estate sectors. An underweight position in the health care sector also contributed to relative return. An underweight position in information technology and security selection in the consumer staples sectors detracted from relative return.

## Best Performers

- Shares of diversified media and entertainment company **Twenty-First Century Fox, Inc. (CI B)** rose due to the proposed sale of certain assets to Disney in an all-stock deal. The company also reported solid quarterly earnings.
- Casino operator **Red Rock Resorts, Inc. (CI A)** announced solid third-quarter results, with Las Vegas revenue growth improving and associated contribution margin returning to normal levels.
- Shares of banking and payment services provider **Discover Financial Services** outperformed as the U.S. credit environment remains relatively benign, which benefits the company's fundamental performance in terms of low, stable charge-offs. Discover is a relatively high U.S. tax payer and stands to benefit from the recently outlined changes to the tax code.
- Shares of regional bank **BankUnited, Inc.** rallied after the company provided detailed commentary on the financial impact of ending its loss-share agreement with the FDIC, which was more positive than the market expected.
- Agriculture equipment manufacturer **Deere & Co.** reported another strong quarter and raised full-year 2018 guidance.

## PORTFOLIO MANAGEMENT



Austin Hawley, CFA  
Portfolio Manager



Rick Snowdon, CFA  
Portfolio Manager

## Worst Performers

- Household durables manufacturer **Whirlpool Corp.** reported weak quarterly results driven largely by raw material inflation and a competitive promotional environment. Whirlpool continues to lose share in Europe, while Asia experienced significant margin declines as both industry weakness and promotional intensity weighed on the business.
- Shares of food products manufacturer **Post Holdings, Inc.** underperformed as a result of market concerns over growth prospects for the packaged foods industry.
- Shares of tobacco products manufacturer **Philip Morris International, Inc.** declined after the company reported weaker-than-expected quarterly results.
- Shares of technology and industrial company **Johnson Controls International PLC** declined amid disappointing earnings and free cash flow guidance. While we are frustrated with the company's recent inability to generate strong free cash flow, the headwinds appear to be temporary and we see no structural reason why the company cannot dramatically improve its cash generation in the years ahead.
- Shares of ski resort owner and operator **Vail Resorts, Inc.** fell as skiing conditions have been late to arrive in Colorado and Utah.

## New Positions

We initiated a position in global financial services firm **Credit Suisse Group AG ADR**. Since CEO Tidjane Thiam took over in mid-2015, fundamentals have been improving and the firm has shored up its capital base. Credit Suisse is now mid-way through its restructuring plan of de-risking and "right sizing" the investment banking and trading businesses in order to focus on its stable Swiss market presence and global wealth franchise. We believe the company's return on tangible equity targets are realistic without significant execution risk and that there is potential for future capital return via dividends and share repurchases. **First Republic Bank** is a high-quality bank that has been widely held in other Diamond Hill strategies. A recent selloff in the shares reflects investor concern about near-term expense growth and the impact



of tax law changes on mortgage interest deductibility. We initiated a position in tobacco products manufacturer **Philip Morris International, Inc.** when the stock fell in response to weaker-than-expected quarterly results. The selloff created a unique buying opportunity in what we believe is a very high-quality business we also hold in other strategies. We also initiated a position in contract manufacturer **Sanmina Corp.**, which has been gradually diversifying away from traditional electronics manufacturing to industrial, medical, and defensive end markets which are more stable and growth oriented.

## Eliminated Positions

We sold our positions in car rental company **Avis Budget Group, Inc.**, banking and financial services company **Citigroup, Inc.**, and homebuilder **NVR, Inc.** as the shares approached our estimates of intrinsic value, and we redeployed the capital to more attractive ideas. We eliminated our position in **Whirlpool Corp.** due to ongoing weak operating results and better opportunities elsewhere.

# Diamond Hill All Cap Select Strategy

As of December 31, 2017

## PERIOD & ANNUALIZED RETURNS (%)

Inception Date: June 30, 2000

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	4Q17
ALL CAP SELECT COMPOSITE							
Gross of Fees	11.18	9.52	17.04	10.18	21.26	21.26	8.25
Net of Fees	10.44	8.87	16.43	9.58	20.60	20.60	8.10
BENCHMARKS							
Russell 3000 Index	5.96	8.60	15.58	11.12	21.13	21.13	6.34
Russell 3000 Value Index	7.61	7.19	13.95	8.71	13.19	13.19	5.08

## CALENDAR YEAR RETURNS (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
ALL CAP SELECT COMPOSITE										
Gross of Fees	-32.90	34.83	11.51	-0.58	12.70	45.86	12.60	-0.48	10.84	21.26
Net of Fees	-33.39	33.89	10.74	-1.21	12.00	45.11	12.07	-1.01	10.22	20.60
BENCHMARKS										
Russell 3000 Index	-37.31	28.34	16.93	1.03	16.42	33.55	12.56	0.48	12.74	21.13
Russell 3000 Value Index	-36.25	19.76	16.23	-0.10	17.55	32.69	12.70	-4.13	18.40	13.19

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 – 9/30/17. 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 All Cap Select Composite has received a Performance Examination from 6/30/00 – 9/30/17. 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 All Cap Select Composite is comprised of discretionary fee paying non-wrap accounts managed according to the firm's All Cap Select equity strategy. The strategy's investment objective is to achieve long-term capital appreciation by investing in companies selling for less than our estimate of intrinsic value. The strategy typically invests in securities with a market capitalization of \$500 million or greater. The strategy's Adviser anticipates that each of the strategy's investments will also be held in one of the other Diamond Hill strategies. 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 3000 Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. The Russell 3000 Value Index is shown as additional information. This index is an unmanaged market-capitalization weighted index measuring the performance of the broad value segment of the U.S. equity universe including those Russell 3000 Index companies with lower expected growth values. 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 All Cap Select separate accounts is as follows: First \$20,000,000 = 0.85%; Over \$20,000,000 = 0.70%.

AS OF YEAR-END	DHCM	ALL CAP SELECT COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management (Gross of Fees)	Dispersion	All Cap Select Composite	Russell 3000 Index
2017	\$22.3B	12	\$332.3M	0.16%	11.85%	10.09%	10.33%
2016	19.4B	13	324.6M	0.28	12.04	10.88	10.97
2015	16.8B	13	466.5M	0.16	11.66	10.58	10.74
2014	15.7B	13	374.9M	0.07	10.56	9.29	9.39
2013	12.2B	14	277.8M	0.24	13.39	12.53	12.90
2012	9.4B	18	227.2M	0.16	14.48	15.73	15.81
2011	8.7B	26	284.9M	0.42	18.81	19.35	21.04
2010	8.6B	28	189.0M	0.48	NA	NA	NA
2009	6.3B	29	155.0M	0.97	NA	NA	NA
2008	4.5B	35	83.3M	0.82	NA	NA	NA

NA = Not Applicable

This composite was created in October 2013.

As of February 28, 2017, the Select Composite was renamed the All Cap Select Composite.

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.

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