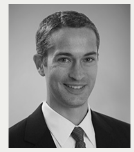
Diamond Hill Financial Long-Short Fund Commentary

As of December 31, 2017

PORTFOLIO MANAGEMENT



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The Fund increased 3.58% (Class I) during the quarter, compared to a 6.83% increase in the long-only Russell 3000 Financials Index and a 5.50% increase in the blended benchmark (80% Russell 3000 Financials Index/20% ICE Bank of America Merrill Lynch U.S. Treasury Bill 0-3 Month Index).

The Russell 3000 Financials Index modestly outperformed the broader Russell 3000 Index during the quarter. The final push to ultimately pass corporate tax reform was the major driver as many firms in the sector are domestically focused and will benefit from corporate tax reform. These developments helped offset ongoing sluggishness in the macro environment including tepid loan growth and a flattening yield curve.

Banks recorded another solid quarter of high single-digit returns as they will be a meaningful beneficiary of corporate tax reform. However, the major regulatory reform that many investors hoped for with the changing political climate remains elusive. After a challenging third quarter with several large loss events and negative equity returns, shares of property and casualty insurance companies underperformed again in the fourth quarter. REITs and real estate companies were also sector laggards in the quarter with low single-digit returns thanks to the prospect of continued interest rate increases in 2018, no real benefit from tax reform, and many sub-sectors with slowing fundamentals. Consumer finance companies were the best-performing group in the sector with low double-digit returns for the second quarter in a row.

With reasonable valuations and increasing capital returns to shareholders, we remain optimistic that investors in the financials sector will benefit from attractive cash yields and per-share growth over the coming years.

Best Performers

Long Portfolio

- 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 **SVB Financial Group** outperformed after the prospect of tax reform accelerated. Additionally, Federal Reserve guidance for interest rate increases also supported the company's shares as it is one the banks most sensitive to increases in short-term interest rates.
- 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.
- Credit services company **Capital One Financial Corp.** continued to slow its U.S. credit card loan growth, which is expected to result in lower loan loss provisions and higher earnings as long as the credit environment remains favorable and the economy expands. The company also stands to benefit from the new changes to the U.S. tax code.
- Shares of diversified holding company **Berkshire Hathaway, Inc. (Cl B)** rose after some of the company's key segments including GEICO, Burlington Northern, and the industrials businesses reported better-than-expected revenue growth. Strong performance from the company's equity investments also helped drive book value growth. In addition, Berkshire Hathaway stands to be a significant beneficiary of tax reform, which will increase its book value meaningfully through a reduction of its large deferred tax liability.

Short Portfolio

- The five best performers were long positions.

Worst Performers

Long Portfolio

- Shares of banking and financial services company **First Republic Bank** declined following company guidance for elevated near-term expenses as it continues to invest in its high-growth franchise. Recent tax law changes to the deductibility of mortgage interest also stoked fears that the company's above-peer growth rate will slow.

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- Shares of real estate investment company **iStar, Inc.** underperformed amid slow land and other real estate sales, which raised concerns about the protracted pace of the company's asset sales and repositioning. While a slowing economy could impact the company's land assets as well as its non-stabilized commercial real estate properties, we believe iStar has made substantial progress in positioning its non-core assets for sale while also stabilizing its balance sheet.

- Shares of property and casualty insurance company **Enstar Group Ltd.** underperformed despite a lack of company-specific news. Over the years, Enstar has shown steady growth in book value and we expect that to continue in the future.

Short Portfolio

- Shares of property and casualty insurance company **Selective Insurance Group, Inc.** rose as the company continues to see pricing increases ahead of loss-cost inflation.

- Title insurer **First American Financial Corp.** continued its strong 2017 performance thanks to good earnings growth and a dividend increase. The company also stands to benefit from tax reform given its domestic-focused business. First American has a solid balance sheet and strong competitive position, but long-term risks remain in the form of regulatory/pricing pressure and technological advances that could obviate or greatly reduce pricing in parts of title insurance.

PERIOD AND AVERAGE ANNUAL TOTAL RETURNS AS OF DECEMBER 31, 2017

	SINCE INCEPTION[2] (8/1/97)	10-YR	5-YR	3-YR	1-YR	YTD	4Q17	EXPENSE RATIO[1] GROSS	NET
RETURNS AT NAV (WITHOUT SALES CHARGE)									
Class A	7.59%	5.10%	13.35%	8.10%	11.58%	11.58%	3.52%	1.92%	1.92%
Class C	6.82	4.29	12.50	7.27	10.76	10.76	3.30	2.67	2.67
Class I	7.79	5.42	13.66	8.41	11.90	11.90	3.58	1.62	1.62
BENCHMARK									
Russell 3000 Financials Index	6.12	5.12	16.92	12.52	19.95	19.95	6.83	—	—
80%/20% Blended Index	5.63	4.57	13.51	10.12	15.92	15.92	5.50	—	—
RETURNS AT POP (WITH SALES CHARGE)									
Class A	7.32	4.56	12.18	6.27	6.02	6.02	-1.63	1.92	1.92
Class C	6.82	4.29	12.50	7.27	9.76	9.76	2.30	2.67	2.67

[1] Includes dividend expense relating to short sales. If dividend expenses relating to short sales were excluded, the Expense Ratio for the Financial Long-Short Fund would have been 1.43% for Class A, 2.18% for Class C, and 1.13% for Class I.

[2] The Fund was long-only from inception through April 2006.

Risk Disclosure: The Fund uses short selling which incurs significant additional risk. Theoretically, stocks sold short have the risk of unlimited losses. Overall equity market risks may affect the value of the fund.

The views expressed are those of the portfolio managers as of December 31, 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. Class C and Class I shares include Class A share performance achieved prior to the creation of Class C and Class I. 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 have no sales charge.

Fund holdings subject to change without notice.

The Russell 3000 Financials Index consists of Russell 3000 companies involved in banking, mortgage finance, consumer finance, specialized finance, investment banking and brokerage, asset management and custody, corporate lending, insurance, financial investments, and real estate, including REITS. The blended index represents a 80% weighting of the Russell 3000 Financials Index and a 20% weighting of the ICE BofA Merrill Lynch U.S. T-Bill 0-3 Month Index. The ICE BofA Merrill Lynch U.S. T-Bill 0-3 Month Index is comprised of U.S. dollar denominated U.S. Treasury Bills with a term to maturity of less than 3 months. These indexes do not incur fees and expenses (which would lower the return) and are 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.

New Positions

We started a position in global financial services firm **Bank of New York Mellon Corp.** We believe new CEO Charlie Scharf will continue to drive profit margin expansion and that management will continue to return capital to shareholders via dividends and share repurchases. We also 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

We did not add any short positions during the quarter.

Eliminated Positions

In the long portfolio, we sold our shares of financial services company **State Street Corp.** as it reached our estimate of intrinsic value. We swapped our position in **Wells Fargo & Co.** into more favorable opportunities as the company's shares approached our estimate of intrinsic value.

We did not eliminate any short positions during the quarter.

MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF DECEMBER 31, 2017

Bank of New York Mellon Corp.	2.2%	Long	**First American Financial Corp.**	(1.1)%	Short
BankUnited, Inc.	4.2	Long	**First Republic Bank**	2.4	Long
Berkshire Hathaway, Inc. (Cl B)	5.3	Long	**iStar, Inc.**	4.1	Long
Capital One Financial Corp.	2.1	Long	**Selective Insurance Group, Inc.**	(2.4)	Short
Credit Suisse Group AG ADR	2.7	Long	**State Street Corp.**	0.0	Long
Discover Financial Services	5.3	Long	**SVB Financial Group**	4.3	Long
Enstar Group Ltd.	1.4	Long	**Wells Fargo & Co.**	0.0	Long

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.