

The Fund increased 5.72% (Class I) during the quarter, compared to a 6.59% increase in the Russell 1000 Index.

The Fund's holdings in all sectors contributed to absolute return, led by the financials and information technology sectors.

The Fund's underperformance relative to the Index was primarily driven by security selection in the consumer discretionary and financials sectors, although this was partially offset by a higher allocation to these strong-performing sectors. An underweight position in the information technology sector and security selection in consumer staples also hurt relative performance. Favorable security selection in the health care and industrials sectors were positive contributors to relative performance.

Best Performers

- 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.
- Software provider **Microsoft Corp.** reported strong quarterly earnings that included revenue growth and margin expansion above expectations. The company also indicated that it has improved its operating margin expectation for full-year fiscal 2018.
- Shares of banking and financial services company **JP Morgan Chase & Co.** outperformed as the combination of tax reform, higher short-term interest rates, and a continuation of healthy economic growth contributed to a solid earnings outlook for 2018.
- Shares of building and aerospace technology conglomerate **United Technologies Corp.** rose as the company meaningfully ramped up production and made good progress on addressing certain quality issues pertaining to its new geared turbofan jet engine program.
- Shares of health care benefits company **Aetna, Inc.** outperformed after CVS Health made a formal offer to acquire Aetna. The deal is expected to close mid-2018.

PORTFOLIO MANAGEMENT



Chuck Bath, CFA
Portfolio Manager



Austin Hawley, CFA
Portfolio Manager



Chris Welch, CFA
Asst. Portfolio Manager

Worst Performers

- 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.
- 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 apparel manufacturer **Hanesbrands, Inc.** underperformed as general concerns about the health of the wholesale channel overshadowed stronger performance in other business lines. While the fundamental trends for the innerwear segment are still weak, the company's margins and market share are holding up well and cash flow is strong.
- Shares of tobacco products manufacturer **Philip Morris International, Inc.** declined after the company reported weaker-than-expected quarterly results.
- Cable and internet services company **Charter Communications, Inc. (CIA)** reported underwhelming quarterly results driven by weaker-than-expected subscriber trends in video and internet. We believe fundamentals will improve as the integration of Time Warner Cable and Bright House continues, and that Charter is well-positioned to grow intrinsic value over the long term.



New Positions

We initiated a position in oil and gas exploration and production company **Devon Energy Corp.** Company management recently articulated a more disciplined capital investment strategy along with a potential, sizeable divestiture program that would help focus the business around attractive core assets. We believe Devon holds an attractive, scalable acreage position in both the Delaware Basin and the Anadarko Basin that should drive meaningful improvement in return on invested capital over time. We started a position in industrial supplies distributor **Fastenal Co.**, a company we already own in other Diamond Hill strategies. The company has a unique service-oriented culture and we believe it is poised to gain meaningful market share over the next five years via its onsite and industrial vending growth initiatives.

We also purchased shares of airline operator **United Continental Holdings, Inc.** The company has improved its operating performance and we believe it is in a good position to improve margins over the next few years via revenue and cost initiatives. Free cash flow generation should increase as capital expenditures decline from current peak levels, and the company recently announced an incremental \$3 billion share repurchase authorization.

Eliminated Positions

We eliminated our position in industrial product manufacturer **Illinois Tool Works, Inc.** when shares reached our estimate of intrinsic value.

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

	SINCE INCEPTION (6/29/01)	10-YR	5-YR	3-YR	1-YR	YTD	4Q17	EXPENSE RATIO	
								GROSS	NET
RETURNS AT NAV (WITHOUT SALES CHARGE)									
Class A	8.69%	8.21%	15.33%	10.67%	19.95%	19.95%	5.61%	0.98%	0.98%
Class C	7.85	7.39	14.47	9.84	19.04	19.04	5.44	1.73	1.73
Class I	8.96	8.54	15.64	10.99	20.30	20.30	5.72	0.68	0.68
Class Y	8.85	8.47	15.79	11.10	20.42	20.42	5.75	0.58	0.58
BENCHMARK									
Russell 1000 Index	7.22	8.59	15.71	11.23	21.69	21.69	6.59	—	—
RETURNS AT POP (WITH SALES CHARGE)									
Class A	8.35	7.65	14.15	8.79	13.97	13.97	0.32	0.98	0.98
Class C	7.85	7.39	14.47	9.84	18.04	18.04	4.44	1.73	1.73

Risk Disclosure: 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, Class I and Class Y shares include Class A share performance achieved prior to the creation of Class C, Class I, and Class Y shares. 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 1000 Index is an unmanaged market capitalization-weighted index comprised of the largest 1,000 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). 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.

MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF DECEMBER 31, 2017

Aetna, Inc.	2.5%	Illinois Tool Works, Inc.	0.0%
Charter Communications, Inc. (CIA)	1.7	JPMorgan Chase & Co.	3.6
Devon Energy Corp.	1.4	Microsoft Corp.	3.2
Discover Financial Services	3.7	Philip Morris International, Inc.	2.9
Fastenal Co.	0.1	United Continental Holdings, Inc.	0.2
First Republic Bank	0.9	United Technologies Corp.	3.4
Hanesbrands, Inc.	1.0	Whirlpool Corp.	0.7

Mentioned securities not held in the Diamond Hill Large Cap Fund: CVS Health Corp.

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.