

Diamond Hill Research Opportunities Fund Commentary As of December 31, 2017

The Fund increased 6.03% (Class I) during the quarter, compared to a 6.34% increase in the long-only Russell 3000 Index and a 4.80% increase in the blended benchmark (75% Russell 3000 Index/25% ICE Bank of America Merrill Lynch U.S. Treasury Bill 0-3 Month Index).

The Fund's long portfolio contributed to absolute return, led by holdings in the consumer discretionary, industrials, and financials sectors. The short portfolio detracted from absolute return primarily due to holdings in the information technology and consumer discretionary sectors.

The Fund's slight underperformance relative to the long-only benchmark was primarily driven by security selection in the information technology sector. This was mostly offset by security selection in the industrials, consumer discretionary, and materials sectors as well as an overweight long position in the consumer discretionary sector and no exposure to the utilities sector.

The Fund's net exposure was 84.8% at the end of the quarter.

Best Performers

Long Portfolio

- 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.
- Homebuilder **NVR, Inc.** reported good quarterly results with strong gross margin performance and solid order growth. Additionally, housing data has been supportive of the homebuilders and NVR is one of the higher-quality names in the industry.
- Data analytics company **Verisk Analytics, Inc.** reported quarterly results that included strength in each of its three industry verticals, indicating that recent headwinds seem to be abating.
- 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.

PORTFOLIO MANAGEMENT

The Research Opportunities Fund is co-managed by Diamond Hill Research Analysts.

- Shares of freight transportation management company **Hub Group, Inc. (CI A)** rose as spot pricing for truck and intermodal shipments remained strong. Current pricing trends indicate that intermodal service providers will be able to reprice contractual services at higher levels in 2018.

Short Portfolio

- The five best performers were long positions.

Worst Performers

Long Portfolio

- Shares of pharmaceutical company **GlaxoSmithKline PLC ADR** underperformed despite the company reporting solid quarterly results. The company also mentioned possible business development in the consumer health segment, which some investors interpreted as an additional cash pull on an already tight cash flow budget. We believe adding scale to the consumer business would enhance the company's intrinsic value.

- Shares of ski resort owner and operator **Vail Resorts, Inc.** fell as skiing conditions have been late to arrive in Colorado and Utah.

Short Portfolio

- Shares of lighting and semiconductor applications provider **CREE, Inc.** appreciated sharply after the company announced a new CEO. We believe the current market valuation embeds overly optimistic long-run expectations for the company's smaller Wolfspeed segment and ignores the headwinds in the larger lighting and LED products segments.
- Shares of consumer electronics retailer **Best Buy Co., Inc.** rose after the retail sector rallied sharply on strong holiday sales and the approval of tax reform. While recent topline results have been strong, the current valuation does not support the highly cyclical nature of the consumer electronics business and the lack of visibility into sustainable long-term growth drivers going forward.
- Shares of recreational vehicle manufacturer **Polaris Industries, Inc.** rose after the company reported better-than-expected quarterly results showing meaningful improvement in its core off-road vehicle retail sales. While the sales improvement appeared impressive, it may not be sustainable since Polaris dealers used heavy promotions to clear old model-year inventory.



New Positions

We initiated the following long positions during the quarter:

- Biopharmaceutical company **Acorda Therapeutics, Inc.** is focused on the neurology market and has growth opportunities in disorders such as Parkinson's, where it has a novel compound awaiting FDA approval.

- Media and technology company **Alphabet, Inc. (CI A)** includes the dominant worldwide internet search and advertising provider Google, which we believe will continue to drive revenue growth with attractive margins.

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

	SINCE INCEPTION (3/31/09)	5-YR	3-YR	1-YR	YTD	4Q17	EXPENSE RATIO ¹	
							GROSS	NET
RETURNS AT NAV (WITHOUT SALES CHARGE)								
Class A	13.18%	10.69%	5.47%	12.98%	12.98%	5.92%	2.02%	2.02%
Class C	12.34	9.87	4.67	12.12	12.12	5.70	2.77	2.77
Class I	13.49	10.99	5.77	13.34	13.34	6.03	1.72	1.72
Class Y	13.64	11.14	5.89	13.47	13.47	6.07	1.62	1.62
BENCHMARK								
Russell 3000 Index	17.44	15.58	11.12	21.13	21.13	6.34	—	—
75%/25% Blended Index	13.05	11.65	8.44	15.74	15.74	4.80	—	—
RETURNS AT POP (WITH SALES CHARGE)								
Class A	12.52	9.56	3.67	7.33	7.33	0.64	2.02	2.02
Class C	12.34	9.87	4.67	11.12	11.12	4.70	2.77	2.77

¹Includes dividend expense relating to short sales. If dividend expenses relating to short sales were excluded, the Expense Ratio for the Research Opportunities Fund would have been 1.43% for Class A, 2.18% for Class C, 1.13% for Class I, and 1.03% for Class Y.

Risk Disclosure: The Fund uses short selling which incurs significant additional risk. Theoretically, stocks sold short have the risk of unlimited losses. There are specialized risks associated with small capitalization issues, such as market illiquidity and greater market volatility, than large capitalization issues. Investing in non-U.S. securities may entail risk due to foreign economic and political developments; this risk may be higher when investing in emerging markets. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns.

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.

The quoted performance for the Fund reflects the past performance of the Diamond Hill Research Partners, L.P. (the "Research Partnership"), a private fund managed with full investment authority by the fund's Adviser. The Fund is managed in all material respects in a manner equivalent to the management of the predecessor unregistered fund. The assets of the Research Partnership were converted into assets of the fund prior to commencement of operation of the fund. The performance of the Research Partnership has been restated to reflect the net expenses and maximum applicable sales charge of the fund for its initial years of investment operations. The Research Partnership was not registered under the Investment Company Act of 1940 and therefore was not subject to certain investment restrictions imposed by the 1940 Act. If the Research Partnership had been registered under the 1940 Act, its performance may have been adversely affected. Performance is measured from March 31, 2009, the inception of the Research Partnership and is not the performance of the fund. The Research Partnership's past performance is not necessarily an indication of how the fund will perform in the future either before or after taxes.

Performance returns assume reinvestment of all distributions. Returns for periods less than one year are not annualized. 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 3000 Index is an unmanaged market capitalization-weighted index comprised of the 3,000 largest U.S. companies by total market capitalization. The blended index represents a 75% weighting of the Russell 3000 Index and a 25% 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.

- Real estate investment trust **American Campus Communities, Inc.**, the largest owner in the small-but-growing student housing industry, owns properties on or near U.S. university campuses and has a pipeline of on-campus developments through partnerships with major schools.
 - Web services company **Baidu, Inc. (CIA)** is the dominant search engine in China. We believe Baidu's advertising revenue will recover from the headwinds faced in late 2016 from new government regulations and growth will resume.
 - Regional bank **BankUnited, Inc.** experienced a temporary selloff due to investor concerns about the impact of the expiration of its FDIC loss share agreement, which created a buying opportunity.
 - **BT Group PLC ADR** is the dominant telecom service provider in the U.K. There are investor concerns surrounding the firm's pension liability and elevated network investments over the next few years; however, we believe the firm will manage through these challenges and cash earnings power will recover by 2020.
 - Real estate investment trusts **CubeSmart** and **Public Storage** are in the storage business, which we believe 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.
 - Existing holding Delphi changed its name to **Aptiv PLC** and spun off its powertrain segment into automobile component manufacturer **Delphi Technologies PLC**.
 - Discount retailer **Dollar General Corp.** provides affordable merchandise in convenient locations and has significant growth opportunity in the rural United States.
 - Automobile company **Fiat Chrysler Automobiles N.V.** has a good management team, improving fundamentals, and strong potential free cash flow generation.
 - Payment technology company **First Data Corp.** generates significant cash flow and is the largest merchant acquirer in the United States.
 - Biotechnology company **Gilead Sciences, Inc.** is the market leader in drugs used for the treatment of Hepatitis C and HIV. The HIV franchise generates strong cash flows and we like management's use of capital to diversify into high-value areas of research.
 - Oil and gas exploration and production company **Linn Energy, Inc. (CIA)** is implementing a plan to aggressively reallocate capital within the business, pay down debt, and repurchase shares. Over the next year, the company will be split into three public businesses which should highlight the value of the underlying assets.
 - **Tanger Factory Outlet Centers, Inc.** is the only publicly traded REIT focused exclusively on outlet centers. It has one of the best balance sheets in the sector and its dividend yield and depressed valuation make it an attractive opportunity.
 - Discount retailer **TJX Cos., Inc.** has a sizeable presence in apparel retail in the U.S. through its TJ Maxx and Marshalls stores and an opportunity to grow this business internationally. In addition, the company has an opportunity to grow market share in U.S. home products through its HomeGoods stores Home Sense.
 - Packaged food manufacturer **Treehouse Foods, Inc.** is the leader in private label foods and we believe it should benefit from economies of scale as it realigns its manufacturing base.
 - Semiconductor materials company **Versum Materials, Inc.** should benefit over the long term from increased demand as chip architectures become more complex.
- In addition, we initiated a position in energy equipment and services company **Welltec A/S 9.5% due 2022** bonds when management refinanced and extended the maturity of the previous existing bonds. The business has continued to innovate during the energy industry downturn and we believe it is well positioned to grow and take market share during the eventual recovery.
- In the short portfolio, we initiated a short position in internet service provider **Cogent Communications Holdings, Inc.**, which we believe will continue to face growth pressures in its internet transit business. Industrial/warehouse real estate investment trust **EastGroup Properties, Inc.** has seen excellent growth over the past few years as the warehouse segment benefited from the shift to e-commerce; however, future growth depends primarily on continued rent increases on already elevated levels. We believe industrial distribution company **W.W. Grainger, Inc.** is likely to promote continued price competition with Amazon Business, which will lead to margin degradation over the next five years.

Eliminated Positions

In the long portfolio, we eliminated our position in credit services company **Capital One Financial Corp.** when the shares reached our estimate of intrinsic value. We eliminated our position in oil and gas exploration and production company **Energen Corp. 7.125% due 2028** bonds to reallocate funds to more favorable opportunities. We sold our shares of **Fortress Investment Group LLC (CIA)** in an all-cash acquisition by Softbank.

In the short portfolio, we covered our short position in cloud networking company **Arista Networks, Inc.** as the company's fundamentals continued to exceed our expectations. We covered

short positions in biotechnology company **Celgene Corp.**, athletic apparel manufacturer **Under Armour, Inc. (CIA)**, health care and cleaning products manufacturer **Prestige Brands Holdings, Inc.**, and remote control products manufacturer **Universal Electronics, Inc.** after shares fell to our estimates of intrinsic value. We closed out our short position in dental products manufacturer **DENTSPLY SIRONA, Inc.** as the stock approached our estimate of intrinsic value. We eliminated our short position in networking technology services provider **Ubiquiti Networks, Inc.** as the cost to borrow shares remained elevated.

MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF DECEMBER 31, 2017

Acorda Therapeutics, Inc.	0.6%	Long	Fortress Investment Group LLC (CIA)	0.0%	Long
Alphabet, Inc. (CIA)	1.9	Long	Gilead Sciences, Inc.	0.8	Long
American Campus Communities, Inc.	0.5	Long	GlaxoSmithKline PLC ADR	3.5	Long
Aptiv PLC	0.4	Long	Hub Group, Inc. (CIA)	4.1	Long
Arista Networks, Inc.	0.0	Short	Linn Energy, Inc. (CIA)	0.3	Long
Baidu, Inc. (CIA)	1.1	Long	NVR, Inc.	3.1	Long
BankUnited, Inc.	1.2	Long	Polaris Industries, Inc.	(1.4)	Short
Best Buy Co., Inc.	(1.6)	Short	Prestige Brands Holdings, Inc.	0.0	Short
BT Group PLC ADR	1.2	Long	Public Storage	0.3	Long
Capital One Financial Corp.	0.0	Long	Red Rock Resorts, Inc. (CIA)	5.7	Long
Celgene Corp.	0.0	Short	Tanger Factory Outlet Centers, Inc.	0.3	Long
Cogent Communications Holdings, Inc.	(0.4)	Short	TJX Cos., Inc.	0.2	Long
Cree, Inc.	(1.2)	Short	TreeHouse Foods, Inc.	0.3	Long
CubeSmart	0.4	Long	Ubiquiti Networks, Inc.	0.0	Short
Delphi Technologies PLC	0.2	Long	Under Armour, Inc. (CIA)	0.0	Short
DENTSPLY SIRONA, Inc.	0.0	Short	Universal Electronics, Inc.	0.0	Short
Discover Financial Services	2.6	Long	Vail Resorts, Inc.	5.2	Long
Dollar General Corp.	0.2	Long	Verisk Analytics, Inc.	3.1	Long
EastGroup Properties, Inc.	(0.1)	Short	Versum Materials, Inc.	0.2	Long
Energen Corp. 7.125% due 2028	0.0	Long	W.W. Grainger, Inc.	(0.3)	Short
Fiat Chrysler Automobiles N.V.	1.0	Long	Welltec A/S 9.5% due 2022	1.0	Long
First Data Corp. (CIA)	0.7	Long			

Mentioned securities not held in the Diamond Hill Research Opportunities Fund: Amazon.com, Inc. and Softbank Group 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.