

(closed to new investors)

The Fund increased 2.23% (Class I) during the quarter, compared to a 5.24% increase in the Russell 2500 Index.

The Fund's holdings in the industrials, consumer discretionary, and information technology sectors provided the largest contribution to absolute return, while the health care and consumer staples sectors detracted from return.

The Fund's underperformance relative to the Index was primarily driven by security selection in the health care, consumer discretionary, financials, and consumer staples sectors as well as the allocation to cash. This was partially offset by security selection in the materials, real estate and industrials sectors.

Best Performers

- 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.
- 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.
- Coating products manufacturer **Axalta Coating Systems Ltd.** was approached by two potential acquirers which led to a sharp increase in its share price. While both deals fell apart over valuation and other terms, we believe the interest is indicative of Axalta's unique coatings franchise.
- Real estate investment company **Jones Lang LaSalle, Inc.** has stabilized its margins and generated strong free cash flow in 2017 following a tough 2016. Additionally, solid real estate values have led to better incentive fees and the company stands to benefit from tax reform.

PORTFOLIO MANAGEMENT



Chris Welch, CFA
Portfolio Manager



Jenny Hubbard, CFA
Asst. Portfolio Manager



Tom Schindler, CFA
Asst. Portfolio Manager

Worst Performers

- Medical device manufacturer **Boston Scientific Corp.** announced that the relaunch of the Lotus transcatheter aortic valve was delayed again due to the timing of regulatory submissions, and management was unable to offer an updated timeframe. We believe that expectations for the company's transcatheter program are low at this point and that problems with Lotus are correctable.
- Consumer and commercial products manufacturer **Newell Brands, Inc.** reported poor quarterly results and lowered full-year guidance as ongoing challenges in retail continue to negatively affect the business. With a high leverage level and low operating cash flow, the company has limited balance sheet flexibility to deal with the changing environment.
- Shares of **LifePoint Health, Inc.** declined amid integration issues with four hospitals it acquired in 2016, as well as ongoing weak utilization trends. We believe the stock is still inexpensive if the company can stabilize operations within these four facilities.
- Banking and financial services company **First Republic Bank** issued 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.
- Shares of food products manufacturer **Post Holdings, Inc.** underperformed as a result of market concerns over growth prospects for the packaged foods industry.



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New Positions

We initiated a position in contract manufacturer **Sanmina Corp.**, which has been gradually diversifying away from traditional electronics manufacturing to industrial, medical, and defense end markets which are more stable and growth oriented.

Eliminated Positions

We sold our position in consumer and commercial products manufacturer **Newell Brands, Inc.** due to weak operating results and increased uncertainty around the long-term competitive position of the business, which is heavily reliant upon traditional big-box retailers.

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

	SINCE INCEPTION (12/30/05)	10-YR	5-YR	3-YR	1-YR	YTD	4Q17	EXPENSE RATIO	
								GROSS	NET
RETURNS AT NAV (WITHOUT SALES CHARGE)									
Class A	9.11%	10.09%	14.30%	8.83%	8.35%	8.35%	2.13%	1.24%	1.24%
Class C	8.31	9.28	13.45	8.02	7.49	7.49	1.93	1.99	1.99
Class I	9.46	10.43	14.61	9.16	8.63	8.63	2.23	0.94	0.94
Class Y	9.33	10.36	14.78	9.27	8.77	8.77	2.23	0.84	0.84
BENCHMARK									
Russell 2500 Index	9.10	9.22	14.33	10.07	16.81	16.81	5.24	—	—
RETURNS AT POP (WITH SALES CHARGE)									
Class A	8.64	9.53	13.14	6.99	2.95	2.95	-2.97	1.24	1.24
Class C	8.31	9.28	13.45	8.02	6.49	6.49	0.94	1.99	1.99

Risk Disclosure: There are specialized risks associated with small capitalization issues, such as market illiquidity and greater market volatility, than large capitalization issues.

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 Y shares include Class A share performance achieved prior to the creation of Class Y shares. These total return figures may reflect the waiver of a portion of a Fund's advisory or administrative fees for certain periods. Without such waiver of fees, the total returns would have been lower. 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 2500 Index is an unmanaged market capitalization-weighted index comprised of the smallest 2,500 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.

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MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF DECEMBER 31, 2017

Axalta Coating Systems Ltd.	2.8%	Newell Brands, Inc.	0.0%
BankUnited, Inc.	3.6	NVR, Inc.	2.6
Boston Scientific Corp.	2.0	Post Holdings, Inc.	2.4
First Republic Bank	1.5	Red Rock Resorts, Inc. (CI A)	2.7
Jones Lang LaSalle, Inc.	1.7	Sanmina Corp.	0.5
LifePoint Health, Inc.	1.8		

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.