



**DIAMOND  
HILL** | CAPITAL  
MANAGEMENT

# Quarterly Commentary: Equity Composites

March 31, 2018

Small Cap (*closed to new investors*)

Large Cap Concentrated

Small-Mid Cap (*closed to new investors*)

All Cap Select

Mid Cap

Global

Large Cap

## Our Mission

At Diamond Hill, *we serve* our clients by providing investment strategies that deliver lasting value through a shared commitment to our intrinsic value-based investment philosophy, long-term perspective, disciplined approach and alignment with our clients' interests.

### VALUE

*We believe* market price and intrinsic value are independent in the short-term but tend to converge over time.

### LONG-TERM

*We maintain* a long-term focus both in investment analysis and management of our business.

### DISCIPLINE

*We invest* with discipline to increase potential return and protect capital.

### PARTNERSHIP

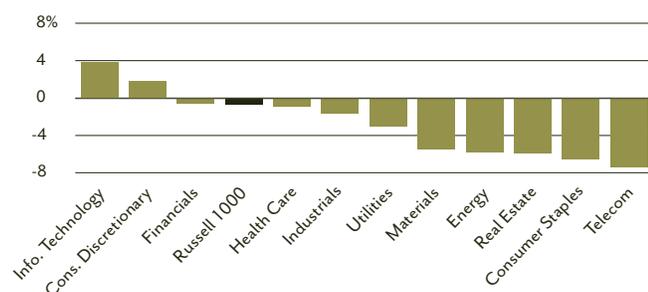
*We align* our interests with those of our clients through significant personal investment in our strategies.

# First Quarter 2018 Review: Equity Markets

U.S. equity markets began the year strong, with the Russell 1000 Index posting a 5.49% return in the month of January. However, stocks fell in February due to concerns about interest rates and increasing volatility, and they continued to fall in March surrounding fears of a global trade war. The Russell 1000 closed the quarter down 0.69%, the first quarterly decline since 2015.

Information technology was the best-performing sector during the quarter (+3.88%) despite a sharp selloff in late March driven by expectations that tighter regulations will impact the industry. Consumer discretionary was the only other sector in the Russell 1000 to post a positive return (+1.81%). Telecommunication services (-7.36%) and consumer staples (-6.57%) were the largest underperformers.

## RUSSELL 1000 SECTOR RETURNS - 1Q18



Source: FactSet

## Outlook

Corporate tax reform is likely to boost earnings growth in the near term with most U.S. companies benefiting from a reduced tax burden. In addition, repatriation of cash held overseas and a more competitive tax regime may lead to increased levels of investment in the United States. However, we believe that for many companies, these benefits will largely be competed away over the longer term.

Our research team continues to evaluate the impact of tax reform on a company-by-company basis and update our estimates of intrinsic value accordingly.

Assessing the impact of macroeconomic factors has been a more important part of estimating the long-term intrinsic value of companies in recent years; however, it is still just one of many factors that we consider. As always, bottom-up analysis is of primary importance in estimating the intrinsic value of an individual company, which includes both valuation and business fundamentals.

Low interest rates, high corporate profit margins, and steady economic growth with low inflation have continued to contribute to historically high stock valuations. High valuations make it more challenging for us to find opportunities to add new names to our equity portfolios. In this environment, where the discount to our estimate of intrinsic value is likely to be narrower, we have focused on maintaining or upgrading the quality of the names we own. When evaluating new and current positions with a smaller discount to our estimate of intrinsic value, we remain focused on assessing risk, which we define as permanent loss of capital.

At current valuation levels, we've historically seen annual stock market returns of 5% or less. We continue to expect positive but below-average equity market returns over the next five years. Prospective returns are likely to be tempered by the combination of above-average price/earnings multiples applied to already very strong levels of corporate profit margins.

We believe we can achieve better-than-market returns over the next five years through active portfolio management, and our primary focus is always on achieving value-added results for our existing clients. Our intrinsic value investment philosophy is shared by all of our portfolio managers and research analysts, allowing us to apply our investment discipline consistently across strategies.

The views expressed are those of Diamond Hill as of March 31, 2018 and are subject to change. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice. Equity portfolio holdings are subject to change and will be made available at least monthly for download at [diamond-hill.com](http://diamond-hill.com), typically on the seventh (7th) business day following the most recent month ending date.

The Composite decreased 0.92%, net of fees, compared to a 0.08% decrease in the Russell 2000 Index and a 2.64% decrease in the Russell 2000 Value Index.

The Composite's holdings in the industrials, energy, and consumer staples sectors were the largest detractors from absolute return. The information technology and financials sectors contributed to absolute return.

The Composite's underperformance relative to the Russell 2000 Index was primarily driven by security selection and an underweight position in the health care sector. Security selection in the information technology sector was the largest contributor to relative performance; however, this was partially offset by an underweight allocation. Security selection in the financials sector also contributed to relative return.

## Best Performers

- Business software and services provider **DST Systems, Inc.** received an offer to be acquired by SS&C Technologies Holdings, Inc. for a 30% premium. The deal is anticipated to close in second-quarter 2018.
- Property and casualty insurance company **Validus Holdings Ltd.** announced an acquisition offer from AIG, representing a significant premium for shareholders.
- Property and casualty insurance company **Navigators Group, Inc.** reported strong fourth-quarter results. After three quarters of reserve additions, Navigators put reserve releases in all lines of business which was received positively by the market.
- Shares of Puerto Rico-based banking and financial services company **Popular, Inc.** recovered after the company's fourth-quarter earnings reports showed that losses from Hurricane Maria will very likely be well below initial market forecasts.
- Rental car company **Avis Budget Group, Inc.** reported encouraging signs of an improving business environment including increased revenues and pricing in fourth-quarter 2017 and improved 2018 guidance.

## Worst Performers

- The underperformance of oil and gas exploration and production company **Cimarex Energy Co.** likely reflects industry concerns around exposure to weaker regional natural gas prices and service cost inflation; however, we believe these issues will largely be resolved over the medium term.

*(closed to new investors)*

## PORTFOLIO MANAGEMENT



Tom Schindler, CFA  
Portfolio Manager



Aaron Monroe, CFA  
Asst. Portfolio Manager



Chris Welch, CFA  
Asst. Portfolio Manager

- Processed and packaged goods company **B&G Foods, Inc.** delivered a weak quarterly earnings report.
- Shares of transportation products and services provider **Trinity Industries, Inc.** declined as the company's railcar deliveries continue to be in a relative trough in this cyclical industry. Trinity anticipates spinning off its inland barge, energy equipment, and construction products businesses by fourth-quarter 2018.
- Despite no fundamental changes, casino operator **Red Rock Resorts, Inc. (CIA)** gave back a portion of its strong fourth-quarter stock performance. The company announced an acceleration of its remodel at The Palms and additional accelerated capital spending due to recent tax reform.
- Shares of aircraft rental and leasing services company **Aircastle Ltd.** declined as some investors were disappointed with near-term revenue growth guidance.

## New Positions

- 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.
- **Bank of the Ozarks** is a high-quality regional banking franchise with a specialized real estate lending group that operates nationally. Investor concerns around an executive departure and the health of the commercial real estate industry created an opportunity to invest in this franchise that has outperformed peer banks on nearly every metric.
- **Cal-Maine Foods, Inc.** is the largest producer and marketer of shell eggs in the United States. We believe Cal-Maine is a well-run, long term-oriented business with a strong balance sheet, good returns on capital, and underappreciated competitive advantages.
- We believe semiconductor materials company **Versum Materials, Inc.** is well-positioned to benefit from the growth in semiconductor chips over the long term and that the quality of the company's advanced materials business is underappreciated. Versum was spun out of industrial gas maker Air Products in late 2016.

*(closed to new investors)*

## Eliminated Positions

- We eliminated shares of real estate investment trust **Colony NorthStar, Inc. (CIA)** as we became concerned about a potential dividend cut. The company's rapid pace of asset sales since closing the Northstar merger helped generate liquidity and focus on core business lines, but created a significant drag on earnings until the capital was reinvested.
- We eliminated cybersecurity solutions provider **Fortinet, Inc.** after shares appreciated past our estimate of intrinsic value.

# Diamond Hill Small Cap Strategy

As of March 31, 2018

*(closed to new investors)*

## PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2000

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	1Q18
SMALL CAP COMPOSITE							
Gross of Fees	12.05	9.68	10.03	6.78	10.02	-0.72	-0.72
Net of Fees	11.18	8.82	9.17	5.94	9.15	-0.92	-0.92
BENCHMARKS							
Russell 2000 Index	8.34	9.84	11.47	8.39	11.79	-0.08	-0.08
Russell 2000 Value Index	9.10	8.61	9.96	7.87	5.13	-2.64	-2.64

## CALENDAR YEAR RETURNS (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
SMALL CAP COMPOSITE										
Gross of Fees	-25.03	30.96	24.76	-5.90	14.32	41.64	5.96	-2.45	15.61	12.05
Net of Fees	-25.62	29.93	23.77	-6.63	13.43	40.55	5.17	-3.23	14.71	11.17
BENCHMARKS										
Russell 2000 Index	-33.79	27.17	26.85	-4.18	16.35	38.82	4.89	-4.41	21.31	14.65
Russell 2000 Value Index	-28.92	20.58	24.50	-5.50	18.05	34.52	4.22	-7.47	31.74	7.84

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 – 12/31/17. 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 Small Cap Composite has received a Performance Examination from 12/31/00 – 12/31/17. 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.; registration does not imply a certain level of skill or training. 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 Small Cap Composite is comprised of discretionary fee paying non-wrap accounts managed according to the firm's Small Cap equity strategy. The strategy's investment objective is to achieve long-term capital appreciation by investing in small capitalization companies selling for less than our estimate of intrinsic value. The Composite typically invests in small capitalization companies with a market capitalization between \$100 million and \$3 billion (or, if greater, the maximum market capitalization of companies generally within the capitalization range of the Russell 2000 Index) at the time of purchase. 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 2000 Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 2,000 smallest companies, on a market capitalization basis, in the Russell 3000 Index. The Russell 2000 Value Index is shown as additional information. This index is an unmanaged market-capitalization weighted index measuring the performance of the small cap value segment of the U.S. equity universe including those Russell 2000 Index companies with lower expected growth values. The Russell 3000 Index is an unmanaged market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies based on total market-capitalization. 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 Small Cap separate accounts is as follows: First \$20,000,000 = 1.00%; Over \$20,000,000 = 0.80%. 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.

AS OF YEAR-END	DHCM	SMALL CAP COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management (Gross of Fees)	Dispersion (Gross of Fees)	Small Cap Composite	Russell 2000 Index
2017	\$22.3B	5 or fewer	\$1.5B	NA	9.44%	13.91%	13.97%
2016	19.4B	5 or fewer	1.8B	NA	10.65	15.76	15.50
2015	16.8B	5 or fewer	1.7B	NA	10.58	13.96	13.46
2014	15.7B	6	1.5B	0.03%	10.62	13.12	12.79
2013	12.2B	7	1.4B	0.74	13.63	16.45	15.82
2012	9.4B	16	911.6M	0.20	15.71	20.20	19.89
2011	8.7B	16	910.2M	0.11	21.46	24.99	26.05
2010	8.6B	19	938.0M	0.24	NA	NA	NA
2009	6.3B	18	621.2M	0.61	NA	NA	NA
2008	4.5B	11	391.2M	0.32	NA	NA	NA

NA = Not applicable

This composite was created in October 2013.

### 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.

**Global Investment  
Performance Standards**

*(closed to new investors)*

The Composite decreased 1.11%, net of fees, compared to a 0.24% decrease in the Russell 2500 Index and a 2.65% decrease in the Russell 2500 Value Index.

The Composite's holdings in the consumer discretionary, consumer staples, and energy sectors were the largest detractors from absolute return, while positions in the financials sector contributed to return.

The Composite's underperformance relative to the Russell 2500 Index was primarily driven by security selection in the consumer discretionary and energy sectors. Security selection and an underweight allocation to the information technology sector also detracted from relative return. A combination of an overweight position and security selection in the consumer staples sector also detracted from return. Favorable security selection in the financials and real estate sectors contributed to relative return.

## Best Performers

- Property and casualty insurance company **Validus Holdings Ltd.** announced an acquisition offer from AIG, representing a significant premium for shareholders.
- Commercial property and casualty insurance company **XL Group Ltd.** announced an acquisition offer from AXA, representing a significant premium for shareholders.
- Shares of shipping and transportation company **Kirby Corp.** outperformed as utilization levels continue to improve in the company's core inland tank barge segment, demand for tank barge shipments are expected to accelerate, and the company made a large acquisition of a tank barge competitor.
- Rental and leasing services company **Aaron's, Inc.** announced solid fourth-quarter 2017 results and 2018 guidance. The company also authorized a \$500 million share repurchase program, though investments and potential acquisitions will likely compete for capital allocation.
- Shares of payment processing services provider **Worldpay, Inc. (CIA)** rose following the closing of its merger with Vantiv and the release of positive results and guidance for the combined company. The size and scope of the new firm brings attractive growth opportunities via new geographies and industry sectors.

## PORTFOLIO MANAGEMENT



Chris Welch, CFA  
Portfolio Manager



Jenny Hubbard, CFA  
Asst. Portfolio Manager



Tom Schindler, CFA  
Asst. Portfolio Manager

## Worst Performers

- The underperformance of oil and gas exploration and production company **Cimarex Energy Co.** likely reflects industry concerns around exposure to weaker regional natural gas prices and service cost inflation; however, we believe these issues will largely be resolved over the medium term.
- Processed and packaged goods company **B&G Foods, Inc.** delivered a weak quarterly earnings report amid concerns about volume and pricing pressures due to changing consumer tastes and pressure from retailer partners.
- Shares of homebuilder **NVR, Inc.** underperformed as housing stocks in general had a weak quarter due to fears of higher interest rates. NVR also missed consensus expectations due primarily to a weaker-than-expected backlog conversion; however, we still have confidence in the company's business and management team long term.
- Despite no fundamental changes, casino operator **Red Rock Resorts, Inc. (CIA)** gave back a portion of its strong fourth-quarter stock performance. The company announced an acceleration of its remodel at The Palms and additional accelerated capital spending due to recent tax reform.
- Shares of freight transportation management company **Hub Group, Inc. (CIA)** declined amid disappointing 2018 guidance following a strong fourth-quarter 2017. We were encouraged by the company's revenue guidance and did not anticipate material pricing improvement until the second half of 2018 due to the timing of when they can renegotiate their contractual pricing.

## New Positions

- **Bank of the Ozarks** is a high-quality regional banking franchise with a specialized real estate lending group that operates nationally. Investor concerns around an executive departure and the health of the commercial real estate industry created an opportunity to invest in this franchise that has outperformed peer banks on nearly every metric.

*(closed to new investors)*

- **Formula One Group** is a global motorsport racing league that was acquired by Liberty Media last year. Formula One's intellectual property is unique and extremely difficult to replicate, and its 350 million fan base remains massive. The business model provides high free cash flow generation and the sport is well-positioned to benefit from secular shifts in media as a whole. New management has a strong track record of monetizing sports and is focused on the long term.
- High-quality ski resort owner and operator **Vail Resorts, Inc.** owns difficult-to-replicate assets and offers them collectively to consumers at a very compelling value with its Epic Pass. The business has amassed this strategic network of assets over multiple years with each purchase enhancing the entire collection. Recent concerns regarding weather and a newly announced competitor pass created some volatility in the shares, enabling us to begin a position in this portfolio.

## Eliminated Positions

- We eliminated shares of real estate investment trust **Colony NorthStar, Inc. (CI A)** as we became concerned about a potential dividend cut. The company's rapid pace of asset sales since closing the NorthStar merger helped generate liquidity and focus on core business lines, but created a significant drag on earnings until the capital was reinvested.
- Household durables manufacturer **Whirlpool Corp.** was eliminated due to concerns about the company's competitive position.

# Diamond Hill Small-Mid Cap Strategy

As of March 31, 2018

*(closed to new investors)*

## PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2005

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	1Q18
SMALL-MID CAP COMPOSITE							
Gross of Fees	10.15	11.63	12.02	8.26	5.67	-0.92	-0.92
Net of Fees	9.35	10.82	11.24	7.50	4.89	-1.11	-1.11
BENCHMARKS							
Russell 2500 Index	8.89	10.28	11.55	8.15	12.31	-0.24	-0.24
Russell 2500 Value Index	7.86	9.34	9.88	7.26	5.72	-2.65	-2.65

## CALENDAR YEAR RETURNS (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
SMALL-MID CAP COMPOSITE										
Gross of Fees	-29.38	41.71	24.74	-2.96	16.93	43.32	8.43	2.45	19.31	9.63
Net of Fees	-29.99	40.52	23.72	-3.62	16.19	42.39	7.70	1.75	18.47	8.85
BENCHMARKS										
Russell 2500 Index	-36.79	34.39	26.71	-2.51	17.88	36.80	7.07	-2.90	17.59	16.81
Russell 2500 Value Index	-31.99	27.68	24.82	-3.36	19.21	33.32	7.11	-5.49	25.20	10.36

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AS OF YEAR-END	DHCM	SMALL-MID CAP COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management (Gross of Fees)	Dispersion (Gross of Fees)	Small-Mid Cap Composite	Russell 2500 Index
2017	\$22.3B	16	\$3.2B	0.10%	9.97%	12.13%	11.81%
2016	19.4B	18	3.0B	0.05	11.25	13.67	13.17
2015	16.8B	12	1.9B	0.17	11.09	12.42	12.02
2014	15.7B	11	1.1B	0.13	11.20	11.67	11.25
2013	12.2B	9	586.7M	0.39	14.51	15.63	15.07
2012	9.4B	6	233.7M	0.10	16.13	18.97	18.41
2011	8.7B	6	189.2M	0.05	24.12	23.40	24.23
2010	8.6B	6	97.2M	0.16	NA	NA	NA
2009	6.3B	6	64.1M	1.20	NA	NA	NA
2008	4.5B	8	47.9M	0.53	NA	NA	NA

NA = Not Applicable

This composite was created in October 2013.

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.

**Global Investment  
Performance Standards**

The Composite decreased 0.86%, net of fees, compared to a 0.46% decrease in the Russell Midcap Index and a 2.50% decrease in the Russell Midcap Value Index.

The Composite's holdings in the consumer discretionary, consumer staples, and energy sectors were the largest detractors from absolute return, while positions in the financials sectors were the primary contributor to return.

A combination of security selection and an underweight position in the information technology sector was the primary driver of underperformance relative to the Russell Midcap Index. Security selection in the energy and consumer discretionary sectors also detracted from relative return, while security selection in the financials and real estate sectors contributed to relative return.

## Best Performers

- Property and casualty insurance company **Validus Holdings Ltd.** announced an acquisition offer from AIG, representing a significant premium for shareholders.
- Commercial property and casualty insurance company **XL Group Ltd.** announced an acquisition offer from AXA, representing a significant premium for shareholders.
- Shares of shipping and transportation company **Kirby Corp.** outperformed as utilization levels continue to improve in the company's core inland tank barge segment, demand for tank barge shipments are expected to accelerate, and the company made a large acquisition of a tank barge competitor.
- Real estate investment company **Jones Lang LaSalle, Inc.** has performed well since a tough 2016, when the company's earnings declined from a combination of factors including lower incentive fees from their investment management segment and slowing transaction volume. Margins have stabilized and the company has generated very strong free cash flow and good earnings growth.
- Shares of medical device manufacturer **Boston Scientific Corp.** continue to outperform despite the recall of the company's Lotus aortic valve. Fourth-quarter organic growth was strong and the remainder of the pipeline appears attractive.

## PORTFOLIO MANAGEMENT



Chris Welch, CFA  
Portfolio Manager



Chris Bingaman CFA  
Asst. Portfolio Manager



Jenny Hubbard, CFA  
Asst. Portfolio Manager

## Worst Performers

- The underperformance of oil and gas exploration and production company **Cimarex Energy Co.** likely reflects industry concerns around exposure to weaker regional natural gas prices and service cost inflation; however, we believe these issues will largely be resolved over the medium term.
- Shares of homebuilder **NVR, Inc.** underperformed as housing stocks in general had a weak quarter due to fears of higher interest rates. NVR also missed consensus expectations due primarily to a weaker-than-expected backlog conversion; however, we still have confidence in the company's business and management team long term.
- Despite no fundamental changes, casino operator **Red Rock Resorts, Inc. (CIA)** gave back a portion of its strong fourth-quarter stock performance. The company announced an acceleration of its remodel at The Palms and additional accelerated capital spending due to recent tax reform.
- Processed and packaged goods company **B&G Foods, Inc.** delivered a weak quarterly earnings report amid concerns about volume and pricing pressures due to changing consumer tastes and pressure from retailer partners.
- Networking and communications company **Juniper Networks, Inc.** delivered disappointing fourth-quarter results and first-quarter guidance. While the company's router business is exposed to increasing competition and rapid technological change, we believe management is making progress towards addressing these challenges.

## New Positions

- **Bank of the Ozarks** is a high-quality regional banking franchise with a specialized real estate lending group that operates nationally. Investor concerns around an executive departure and the health of the commercial real estate industry created an opportunity to invest in this franchise that has outperformed peer banks on nearly every metric.

- **Formula One Group** is a global motorsport racing league that was acquired by Liberty Media last year. Formula One's intellectual property is unique and extremely difficult to replicate, and its 350 million fan base remains massive. The business model provides high free cash flow generation and the sport is well-positioned to benefit from secular shifts in media as a whole. New management has a strong track record of monetizing sports and is focused on the long term.
- High-quality ski resort owner and operator **Vail Resorts, Inc.** owns difficult-to-replicate assets and offers them collectively to consumers at a very compelling value with its Epic Pass. The business has amassed this strategic network of assets over multiple years with each purchase enhancing the entire collection. Recent concerns regarding weather and a newly announced competitor pass created some volatility in the shares, enabling us to begin a position in this portfolio.

## Eliminated Positions

- Regional bank **First Horizon National Corp.** was sold in order to invest capital in more attractive opportunities.
- Household durables manufacturer **Whirlpool Corp.** was sold due to concerns about the company's competitive position.
- Packaged foods manufacturer **TreeHouse Foods, Inc.** was eliminated after reporting another quarter of very weak results and deteriorating fundamentals.

## PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2013

	SINCE INCEPTION	3-YR	1-YR	YTD	1Q18
MID CAP COMPOSITE					
Gross of Fees	9.36	8.83	7.19	-0.70	-0.70
Net of Fees	8.67	8.16	6.55	-0.86	-0.86
BENCHMARKS					
Russell Midcap Index	9.71	8.01	12.20	-0.46	-0.46
Russell Midcap Value Index	9.12	7.23	6.50	-2.50	-2.50

## CALENDAR YEAR RETURNS (%)

	2014	2015	2016	2017
MID CAP COMPOSITE				
Gross of Fees	8.84	1.59	19.62	11.31
Net of Fees	8.13	0.94	18.85	10.66
BENCHMARKS				
Russell Midcap Index	13.22	-2.44	13.80	18.52
Russell Midcap Value Index	14.75	-4.78	20.00	13.34

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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

AS OF YEAR-END	DHCM	MID CAP COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Mid Cap Composite	Russell Midcap Index
2017	\$22.3B	5 or fewer	\$129.6M	NA <sup>1</sup>	9.53%	10.36%	10.33%
2016	19.4B	5 or fewer	58.8M	NA <sup>1</sup>	10.87	11.55	11.30
2015	16.8B	5 or fewer	18.6M	NA <sup>1</sup>	NA <sup>2</sup>	NA <sup>2</sup>	NA <sup>2</sup>
2014	15.7B	5 or fewer	16.3M	NA <sup>1</sup>	NA <sup>2</sup>	NA <sup>2</sup>	NA <sup>2</sup>

<sup>1</sup> NA = Not Applicable

<sup>2</sup> Statistics are not presented because 36 monthly returns are not available.

This composite was created in December 2013.

The Composite decreased 3.72%, net of fees, compared to a 0.69% decrease in the Russell 1000 Index and a 2.83% decrease in the Russell 1000 Value Index.

The Composite's holdings in the energy, consumer discretionary, consumer staples, and financials sectors were the largest detractors from absolute return.

Security selection in the consumer discretionary and energy sectors was the primary driver of underperformance relative to the Russell 1000 Index. Security selection and an underweight allocation to information security also detracted from relative return, while security selection in the health care and materials sectors modestly contributed to relative return.

## Best Performers

- Software provider **Microsoft Corp.** reported strong quarterly earnings. The company also indicated that it now expects to achieve slight operating margin expansion in 2018, which was an improvement from expectations.
- Health care products manufacturer **Abbott Laboratories** continues to execute and its device pipeline remains well-stocked. The company is reducing debt ahead of schedule, improving balance sheet flexibility, and shielding itself from rising interest rates.
- Shares of payment processing services provider **Worldpay, Inc. (CIA)** rose following the closing of its merger with Vantiv and the release of positive results and guidance for the combined company. The size and scope of the new firm brings attractive growth opportunities via new geographies and industry sectors.
- Discount apparel retailer **TJX Cos., Inc.** reported strong fourth-quarter comparable store sales growth. In addition, TJX is a beneficiary of the Tax Cuts and Jobs Act and announced plans to use proceeds from its windfall to repurchase \$2.5-\$3 billion in company stock this fiscal year.
- Life sciences tools company **Thermo Fisher Scientific, Inc.** reported very strong earnings results. All end markets are strong and the company is benefiting from integrating acquisitions and new product launches.

## PORTFOLIO MANAGEMENT



Chuck Bath, CFA  
Portfolio Manager



Austin Hawley, CFA  
Portfolio Manager



Chris Welch, CFA  
Asst. Portfolio Manager

## Worst Performers

- The underperformance of oil and gas exploration and production company **Cimarex Energy Co.** likely reflects industry concerns around exposure to weaker regional natural gas prices and service cost inflation; however, we believe these issues will largely be resolved over the medium term.
- The underperformance of oil and gas exploration and production company **Devon Energy Corp.** likely reflects concerns about regional natural gas prices along with confusion around 2018 production and capex guidance, which we believe were overly conservative. We do not see any reason to believe the company is seeing a meaningful degradation in operating results.
- Shares of banking and financial services company **Citigroup, Inc.** lagged as investors appeared to become increasingly focused on potential barriers to international trade.
- Shares of consumer products manufacturer **Procter & Gamble Co.** traded lower over fears of continued rising transportation costs and a possible inability to pass those cost increases on to retail customers.
- Life insurance company **MetLife, Inc.** pre-announced fourth-quarter results that were impacted by a material weakness in the company's process for handling claims in its U.S. group annuity business. This was a disappointing development and reflected poorly on management; however, the financial impact is minimal.

## New Positions

- Beverage company **Constellation Brands, Inc. (CIA)** presents a unique opportunity to gain exposure to a very high-quality portfolio of irreplaceable brands such as Corona, Modelo, Pacifico, Ballast Point, Meiom, Black Box, Casa Noble, and High West.

- Social media company **Facebook, Inc. (CI A)** is the largest social network in the world. The company also owns other large user base properties (Instagram, WhatsApp, and Messenger), all of which benefit from network effects. We initiated a position in the company based on our belief that the company's attractive network economics will remain in place over the long term, and that the current valuation reflects excessive pessimism related to uncertainties around regulation and fines that the company might face. We believe these issues are likely to be resolved without impairing the value of the business.
- Biotechnology company **Gilead Sciences, Inc.** is the market leader in drugs used for the treatment of human immunodeficiency virus (HIV) and hepatitis C virus (HCV). We are encouraged by management's use of capital to diversify into high-value areas of research including next-generation oncology therapies, immunology, and liver disease.

- Semiconductor manufacturer **Texas Instruments, Inc.** is the world's largest chipmaker in analog semiconductors. The company has a manufacturing advantage over its competitors and enjoys scale benefits, along with having a broad portfolio of products. The company also has an excellent capital allocation strategy and is a beneficiary of the U.S. Tax Cuts and Jobs Act.

## Eliminated Positions

- We eliminated industrial supplies distributor **Fastenal Co.** as it reached our estimate of intrinsic value.
- Automobile manufacturer **Ford Motor Co.** and household durables manufacturer **Whirlpool Corp.** were eliminated in order to invest capital in more attractive opportunities.

# Diamond Hill Large Cap Strategy

As of March 31, 2018

## PERIOD & ANNUALIZED RETURNS (%)

Inception Date: June 30, 2001

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	1Q18
LARGE CAP COMPOSITE							
Gross of Fees	9.62	9.54	13.07	10.24	9.62	-3.60	-3.60
Net of Fees	9.01	8.97	12.48	9.68	9.06	-3.72	-3.72
BENCHMARKS							
Russell 1000 Index	7.07	9.61	13.17	10.39	13.98	-0.69	-0.69
Russell 1000 Value Index	6.96	7.78	10.78	7.88	6.95	-2.83	-2.83

## CALENDAR YEAR RETURNS (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
LARGE CAP COMPOSITE										
Gross of Fees	-33.92	31.49	10.61	3.60	13.35	37.79	11.60	-0.16	15.24	21.10
Net of Fees	-34.29	30.79	10.00	3.11	12.79	37.06	10.99	-0.72	14.71	20.51
BENCHMARKS										
Russell 1000 Index	-37.60	28.43	16.10	1.50	16.42	33.11	13.24	0.92	12.05	21.69
Russell 1000 Value Index	-36.85	19.69	15.51	0.39	17.51	32.53	13.45	-3.83	17.34	13.66

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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.

AS OF YEAR-END	DHCM	LARGE CAP COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Large Cap Composite	Russell 1000 Index
2017	\$22.3B	196	\$9.1B	0.12%	11.36%	9.97%	10.20%
2016	19.4B	185	7.1B	0.28	11.91	10.69	10.77
2015	16.8B	180	5.8B	0.30	11.83	10.48	10.68
2014	15.7B	155	5.8B	0.10	9.53	9.12	9.20
2013	12.2B	132	4.2B	0.24	12.48	12.26	12.70
2012	9.4B	135	3.7B	0.24	14.42	15.41	15.51
2011	8.7B	129	3.5B	0.21	18.88	18.95	20.69
2010	8.6B	123	3.2B	0.22	NA	NA	NA
2009	6.3B	106	1.5B	0.64	NA	NA	NA
2008	4.5B	108	792.5M	0.86	NA	NA	NA

NA = Not applicable

This composite was created in October 2013.

**Global Investment  
Performance Standards**

The Composite decreased 2.94%, net of fees, compared to a 0.69% decrease in the Russell 1000 Index and a 2.83% decrease in the Russell 1000 Value Index.

The Composite's holdings in the financials, consumer staples, and energy sectors were the primary detractors from absolute return, while holdings in the information technology and health care sectors contributed to return.

The Composite's underperformance relative to the Russell 1000 Index was driven by security selection in the energy sector followed by the financials and consumer discretionary sectors. Security selection in the information technology sector along with an underweight allocation to the sector also detracted from relative return. Security selection in the health care sector was the largest contributor to relative return.

## Best Performers

- Software provider **Microsoft Corp.** reported strong quarterly earnings. The company also indicated that it now expects to achieve slight operating margin expansion in 2018, which was an improvement from expectations.
- Health care products manufacturer **Abbott Laboratories** continues to execute and its device pipeline remains well-stocked. The company is reducing debt ahead of schedule, improving balance sheet flexibility, and shielding itself from rising interest rates.
- Banking and financial services company **Morgan Stanley** reported strong results in wealth management with positive contributions from equities and investment banking.
- Banking and financial services company **JP Morgan Chase & Co.** continues to execute very well across its portfolio of business lines.
- Discount apparel retailer **TJX Cos., Inc.** reported strong fourth-quarter comparable store sales growth. In addition, TJX is a beneficiary of the Tax Cuts and Jobs Act and announced plans to use proceeds from its windfall to repurchase \$2.5-\$3 billion in company stock this fiscal year.

## PORTFOLIO MANAGEMENT



Chuck Bath, CFA  
Portfolio Manager



Austin Hawley, CFA  
Portfolio Manager



Chris Welch, CFA  
Asst. Portfolio Manager

## Worst Performers

- The underperformance of oil and gas exploration and production company **Cimarex Energy Co.** likely reflects industry concerns around exposure to weaker regional natural gas prices and service cost inflation; however, we believe these issues will largely be resolved over the medium term.
- Shares of banking and financial services company **Citigroup, Inc.** lagged as investors appeared to become increasingly focused on potential barriers to international trade.
- Despite reporting solid quarterly results, shares of **Comcast Corp. (CI A)** declined due to concerns over the company's potential bid for Sky. While we are wary of a potential bidding war that could destroy value, we believe Sky fits well into Comcast's long-term strategy.
- Shares of consumer products manufacturer **Procter & Gamble Co.** traded lower over fears of continued rising transportation costs and a possible inability to pass those cost increases on to retail customers.
- Life insurance company **MetLife, Inc.** pre-announced fourth-quarter results that were impacted by a material weakness in the company's process for handling claims in its U.S. group annuity business. This was a disappointing development and reflected poorly on management; however, the financial impact is minimal.

## New Positions

- We initiated a position in **Berkshire Hathaway, Inc. (CI B)**, the multi-industry holding company led by Warren Buffett. Berkshire owns a diversified collection of high-quality businesses through both 100%-controlled entities as well as partial stakes in publicly traded companies. We believe that Berkshire is poised to deliver better-than-market growth as its insurance companies benefit from a cyclical recovery and it continues to reinvest its cash flows into value creating opportunities.

- We initiated a position in beverage manufacturer **PepsiCo, Inc.**, a name we have owned across other portfolios.
- Although the outcome of its merger with CVS Health is uncertain, we continue to like health care benefits company **Aetna, Inc.** and view the risk/reward as favorable.

## Eliminated Positions

- We eliminated personal products manufacturer **Kimberly-Clark Corp.** and banking and financial services company **Morgan Stanley** in order to invest in more attractive opportunities.

# Diamond Hill Large Cap Concentrated Strategy

As of March 31, 2018

## PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2011

	SINCE INCEPTION	5-YR	3-YR	1-YR	YTD	1Q18
LARGE CAP CONCENTRATED COMPOSITE						
Gross of Fees	14.42	13.52	11.08	10.00	-2.80	-2.80
Net of Fees	14.05	13.15	10.86	9.36	-2.94	-2.94
BENCHMARKS						
Russell 1000 Index	15.02	13.17	10.39	13.98	-0.69	-0.69
Russell 1000 Value Index	13.46	10.78	7.88	6.95	-2.83	-2.83

## CALENDAR YEAR RETURNS (%)

	2012	2013	2014	2015	2016	2017
LARGE CAP CONCENTRATED COMPOSITE						
Gross of Fees	10.00	38.75	10.70	-0.59	19.17	19.28
Net of Fees	9.74	37.22	10.63	-0.46	19.16	18.57
BENCHMARKS						
Russell 1000 Index	16.42	33.11	13.24	0.92	12.05	21.69
Russell 1000 Value Index	17.51	32.53	13.45	-3.83	17.34	13.66

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AS OF YEAR-END	DHCM	LARGE CAP CONCENTRATED COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management (Gross of Fees)	Dispersion	Large Cap Concentrated Composite	Russell 1000 Index
2017	\$22.3B	5 or fewer	\$3.4M	NA <sup>1</sup>	12.41%	9.97%	10.20%
2016	19.4B	5 or fewer	2.9M	NA <sup>1</sup>	12.77	10.69	10.77
2015	16.8B	5 or fewer	418.9M	NA <sup>1</sup>	12.07	10.48	10.68
2014	15.7B	5 or fewer	422.6M	NA <sup>1</sup>	9.29	9.12	9.20
2013	12.2B	5 or fewer	382.3M	NA <sup>1</sup>	NA <sup>2</sup>	NA <sup>2</sup>	NA <sup>2</sup>
2012	9.4B	5 or fewer	275.9M	NA <sup>1</sup>	NA <sup>2</sup>	NA <sup>2</sup>	NA <sup>2</sup>

<sup>1</sup> NA = Not applicable

<sup>2</sup> Statistics are not presented because 36 monthly returns are not available.

This composite was created in December 2011.

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.

**Global Investment  
Performance Standards**

The Composite decreased 1.13%, net of fees, compared to a 0.64% decrease in the Russell 3000 Index and a 2.82% decrease in the Russell 3000 Value Index.

The Composite's holding in the consumer staples, information technology, and consumer discretionary sectors were the primary detractors from absolute return, while the financials sector was the largest contributor.

The Composite's underperformance relative to the Russell 3000 Index was primarily driven by security selection in the information technology sector along with an underweight allocation to the sector. Security selection in the consumer discretionary and energy sectors also detracted from relative return. A combination of security selection and an overweight allocation to the financials sectors was the largest contributor to relative return.

## Best Performers

- Property and casualty insurance company **Validus Holdings Ltd.** announced an acquisition offer from AIG, representing a significant premium for shareholders
- Shares of shipping and transportation company **Kirby Corp.** outperformed as utilization levels continue to improve in the company's core inland tank barge segment, demand for tank barge shipments are expected to accelerate, and the company made a large acquisition of a tank barge competitor.
- Diversified media and entertainment company **Twenty-First Century Fox, Inc. (CI B)** reported very strong quarterly earnings. Shares also rose as investors began to better understand the company's transaction to sell certain assets to Disney and speculation increased that another bidder may enter the fray.
- Data analytics company **Verisk Analytics, Inc.** reported fourth-quarter earnings that included strong performance in each of the industries the company serves. Additionally, with nearly 80% of revenue generated in the United States, the company will benefit from a meaningfully lower income tax rate.
- Health care products manufacturer **Abbott Laboratories** continues to execute and its device pipeline remains well-stocked. The company is reducing debt ahead of schedule, improving balance sheet flexibility, and shielding itself from rising interest rates.

## PORTFOLIO MANAGEMENT



Austin Hawley, CFA  
Portfolio Manager



Rick Snowdon, CFA  
Portfolio Manager

## Worst Performers

- Life insurance company **MetLife, Inc.** pre-announced fourth-quarter results that were impacted by a material weakness in the company's process for handling claims in its U.S. group annuity business. This was a disappointing development and reflected poorly on management; however, the financial impact is minimal
- Contract manufacturer **Sanmina-SCI Corp.** reported weak quarterly results due to order cancellations and pushouts in their communications business, as well as slower-than-expected ramp of new programs.
- Despite no fundamental changes, casino operator **Red Rock Resorts, Inc. (CI A)** gave back a portion of its strong fourth-quarter stock performance. The company announced an acceleration of its remodel at The Palms and additional accelerated capital spending due to recent tax reform.
- Shares of media and communications company **Liberty Global PLC (CI A)** declined amid rumors of a potential sale of certain assets to Vodafone, which may have disappointed some shareholders who prefer a full sale of the company. Additionally, the Swiss segment is struggling amidst intense competitive pressures and an acquisition or partnership may be necessary to turn the business around.
- Banking and payment services provider **Discover Financial Services** is experiencing higher loan loss provisions related to increasing levels of credit card loan growth, which we view as relatively short term. Over the long run, the loan growth builds shareholder value and we are confident in the ability of management to employ sound underwriting and risk management practices consistent with the company's above-industry returns on capital.

## New Positions

- **Bank of the Ozarks** is a high-quality regional banking franchise with a specialized real estate lending group that operates nationally. Investor concerns around an executive departure and the health of the commercial real estate industry created an opportunity to invest in this franchise that has outperformed peer banks on nearly every metric.

- **Cimarex Energy Co.** is a domestic exploration and production company focused on drilling for oil and gas in the Permian and Anadarko Basins. We believe the company has high-quality assets that are well-positioned to provide attractive reinvestment opportunities. The current focus on short-term factors such as service cost inflation and natural gas pricing risk has provided an attractive entry point based on our long-term analysis of the business.
- Social media company **Facebook, Inc. (CIA)** is the largest social network in the world. The company also owns other large user base properties (Instagram, WhatsApp and Messenger), all of which benefit from network effects. We initiated a position in the company based on our belief that the company's attractive network economics will remain in place over the long term, and that the current valuation reflects excessive pessimism related to uncertainties around regulation and fines that the company might face. We believe these issues are likely to be resolved without impairing the value of the business.

- Biotechnology company **Gilead Sciences, Inc.** is the market leader in drugs used for the treatment of human immunodeficiency virus (HIV) and hepatitis C virus (HCV). We are encouraged by management's use of capital to diversify into high-value areas of research including next-generation oncology therapies, immunology, and liver disease.

## Eliminated Positions

- Agriculture equipment manufacturer **Deere & Co.** and industrial supplies distributor **Fastenal Co.** were sold as the shares approached our estimates of intrinsic value.
- Automobile manufacturer **Ford Motor Co.**, building and aerospace technology conglomerate **United Technologies Corp.**, and property and casualty insurance company **Validus Holdings Ltd.** were eliminated to make room for more attractive opportunities.

# Diamond Hill All Cap Select Strategy

As of March 31, 2018

## PERIOD & ANNUALIZED RETURNS (%)

Inception Date: June 30, 2000

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	1Q18
ALL CAP SELECT COMPOSITE							
Gross of Fees	10.95	10.11	13.63	7.78	14.19	-0.99	-0.99
Net of Fees	10.21	9.45	13.03	7.19	13.57	-1.13	-1.13
BENCHMARKS							
Russell 3000 Index	5.83	9.62	13.03	10.22	13.81	-0.64	-0.64
Russell 3000 Value Index	7.33	7.84	10.71	7.87	6.81	-2.82	-2.82

## 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

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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 (Gross of Fees)	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.

**Global Investment Performance Standards**

The Composite declined 1.18%, net of fees, compared to a 0.89% decline in the Morningstar Global Markets Index.

The Composite's holdings in the consumer discretionary and information technology sectors were the primary detractors from absolute return, while positions in the financials sector were the largest contributor.

Security selection in the information technology sector along with an underweight allocation to the sector drove the Composite's underperformance relative to the Index. Security selection in the consumer discretionary and energy sectors also detracted from return. Conversely, security selection in the industrials, consumer staples, materials, and financials sectors contributed to relative return.

While markets are skittish, the global economy is currently performing quite well. In January, the World Bank projected that global real GDP will grow 3.1% in 2018, implying a slight increase from 2017. Encouragingly, every major economy is expected to deliver positive growth this year. North American economies are forecast to continue their slow but steady expansion. In Asia, moderating but still strong growth from China is expected to be complemented by accelerating growth from India. Beyond these two growing giants, many emerging economies have benefited from rising commodity prices, and the World Bank forecasts 4-5% annual GDP growth from developing countries over the next three years, compared to approximately 2% growth from advanced economies. If the World Bank's forecast proves accurate, and if interest rates remain near current levels, then global market valuations are likely reasonable. However, with the current economic expansion entering its tenth year, the likelihood of sustaining consistently strong economic growth coupled with relatively low interest rates for several years is arguably fairly low. So, while current fundamentals are clearly solid, the time horizon over which these fundamentals will remain strong is not clear at all. The elevated market volatility experienced in the first quarter is a reflection of these underlying conditions and uncertainties. Against this backdrop, we can't point to a specific country or sector in which valuations are uniformly attractive because of general macroeconomic conditions. Rather, the most attractively valued businesses held in the portfolio are discounted because of firm-specific factors.

## PORTFOLIO MANAGEMENT



Grady Burkett, CFA  
Portfolio Manager



Rick Snowden, CFA  
Portfolio Manager

## Best Performers

- Property and casualty insurance company **Validus Holdings Ltd.** announced an acquisition offer from AIG, representing a significant premium for shareholders.
- Securities exchange operator **Euronext N.V.** completed its acquisition of the Irish Stock Exchange. The acquisition furthers Euronext's efforts to diversify products and capabilities as it creates a pan-European platform, particularly in cities that benefit from Brexit. Management has expressed interest in further M&A given the firm's strong financial position and cash flow generation capabilities, and investors continue to reward those strategic efforts.
- Pharmaceutical company **GlaxoSmithKline PLC** delivered strong fourth-quarter results, with sales up across all three key businesses. The company has three new drug launches underway, and the new management team is showing a keen sense for capital management.
- Shares of shipping and transportation company **Kirby Corp.** outperformed as utilization levels continue to improve in the company's core inland tank barge segment, demand for tank barge shipments are expected to accelerate, and the company made a large acquisition of a tank barge competitor.
- Diversified media and entertainment company **Twenty-First Century Fox, Inc. (CIB)** reported very strong quarterly earnings. Shares also rose as investors began to better understand the company's transaction to sell certain assets to Disney and speculation increased that another bidder may enter the fray.

## Worst Performers

- Contract manufacturer **Sanmina-SCI Corp.** reported weak quarterly results due to order cancellations and pushouts in their communications business, as well as slower-than-expected ramp of new programs.

- Shares of media and communications company **Liberty Global PLC (CIA)** declined amid rumors of a potential sale of certain assets to Vodafone, which may have disappointed some shareholders who prefer a full sale of the company. Additionally, the Swiss segment is struggling amidst intense competitive pressures and an acquisition or partnership may be necessary to turn the business around.
- Life insurance company **MetLife, Inc.** pre-announced fourth-quarter results that were impacted by a material weakness in the company's process for handling claims in its U.S. group annuity business. This was a disappointing development and reflected poorly on management; however, the financial impact is minimal.
- Automobile manufacturer **Ford Motor Co.** released disappointing fourth-quarter earnings and recent comments from management has generated some uncertainty surrounding their future plans.
- Despite no fundamental changes, casino operator **Red Rock Resorts, Inc. (CIA)** gave back a portion of its strong fourth-quarter stock performance. The company announced an acceleration of its remodel at The Palms and additional accelerated capital spending due to recent tax reform.

## New Positions

- We initiated a position in food products manufacturer **Post Holdings, Inc.**, a company we have owned for many years in other portfolios.
- Social media company **Facebook, Inc. (CIA)** is the largest social network in the world. The company also owns other large user base properties (Instagram, WhatsApp and Messenger), all of which benefit from network effects. We initiated a position in the company based on our belief that the company's attractive network economics will remain in place over the long term, and that the current valuation reflects excessive pessimism related to uncertainties around regulation and fines that the company might face. We believe these issues are likely to be resolved without impairing the value of the business.
- Biotechnology company **Gilead Sciences, Inc.** is the market leader in drugs used for the treatment of human immunodeficiency virus (HIV) and hepatitis C virus (HCV). We

are encouraged by management's use of capital to diversify into high-value areas of research including next-generation oncology therapies, immunology, and liver disease.

- **First Republic Bank** is high-quality regional bank franchise with a laser focus on customer service. This focus combined with a pristine credit history has led to an impressive long-term track record of growing intrinsic value.
- We initiated a position in **BT Group PLC Sponsored ADR**. BT Group is the largest communication services provider in the United Kingdom and is the only operator that owns both nationwide fixed-line and mobile networks. Shares have come under pressure due to concerns about BT's pension deficit, regulatory uncertainty, and elevated capital spending. We expect the firm to successfully manage through these issues over the next several years.
- **Cimarex Energy Co.** is a domestic exploration and production company focused on drilling for oil and gas in the Permian and Anadarko Basins. We believe the company has high-quality assets that are well-positioned to provide attractive reinvestment opportunities. The current focus on short-term factors such as service cost inflation and natural gas pricing risk has provided an attractive entry point based on our long-term analysis of the business.

## Eliminated Positions

- We received shares of auto parts manufacturer **Delphi Technologies PLC** following the spinoff from Delphi Automotive (now Aptiv). The position was eliminated due to other names in the portfolio having similar market exposure and growth profile.
- The following companies were sold in order to fund more attractive opportunities: discount retailer **Dollar General Corp.**, automobile manufacturer **Ford Motor Co.**, Japanese telecommunications operator **KDDI Corp.**, building and aerospace technology conglomerate **United Technologies Corp.**, and property and casualty insurance company **Validus Holdings Ltd.**

## PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2013

	SINCE INCEPTION	3-YR	1-YR	YTD	1Q18
SMALL CAP COMPOSITE					
<b>Gross of Fees</b>	8.75	9.00	18.85	-1.01	-1.01
<b>Net of Fees</b>	8.70	8.93	18.65	-1.18	-1.18
BENCHMARKS					
<b>Morningstar Global Markets Index</b>	7.38	8.24	15.00	-0.89	-0.89

## CALENDAR YEAR RETURNS (%)

	2014	2015	2016	2017
SMALL CAP COMPOSITE				
<b>Gross of Fees</b>	3.69	-4.58	11.42	30.84
<b>Net of Fees</b>	3.69	-4.58	11.42	30.84
BENCHMARKS				
<b>Morningstar Global Markets Index</b>	4.00	-2.04	8.22	23.87

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AS OF YEAR-END	GLOBAL COMPOSITE				3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)	
	DHCM Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Global Composite	Morningstar Global Markets Index
2017	\$22.3B	5 or fewer	\$2.2M	NA	11.56%	10.26%
2016	19.4B	5 or fewer	1.7M	NA	11.66	10.98
2015	16.8B	5 or fewer	1.5M	NA	NA	NA
2014	15.7B	5 or fewer	1.6M	NA	NA	NA

NA = Not applicable

This composite was created in January 2018.

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