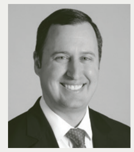
Diamond Hill Financial Long-Short Fund Commentary

As of March 31, 2018

PORTFOLIO MANAGEMENT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The Fund decreased 2.51% (Class I) during the quarter, compared to a 0.50% decrease in the long-only Russell 3000 Financials Index and a 0.30% decrease in the blended benchmark (80% Russell 3000 Financials Index/20% ICE Bank of America Merrill Lynch U.S. Treasury Bill 0-3 Month Index).

The Russell 3000 Financials Index modestly outperformed the broader Russell 3000 Index during the quarter, though both indices turned negative for the first time in several quarters. While trillions of dollars in monetary stimulus provided by the Federal Reserve, Bank of Japan, and European Central Bank had dampened volatility in recent years, the market witnessed the return of volatility in the first quarter. After a dormant 2017, the Cboe Volatility Index started to rise in January and spiked in February to levels not seen since early 2016. As markets navigate the wind down of central bank stimulus, yields have been unpredictable. The yield on the 10-year U.S. Treasury approached 3%, a level it had not reached since 2013, before retreating to 2.75% by the end of March. The gap between the 2-year and 10-year Treasury recently sank to its narrowest since 2007, which is typically a sign of weakening sentiment about the prospects for long-term growth. At the same time, we are seeing some fears of a pickup in inflation. The Fed increased the federal funds rate five times between fourth-quarter 2016 and first-quarter 2018, from 0.50% to 1.75%, including a 0.25% increase on March 21, 2018. With the market anticipating further interest rate increases, financial investors are also digesting the impacts of higher borrowing and deposit costs and the impact on overall economic activity.

Large and mid-cap banks as well as payments, brokers, and exchanges outperformed, as those sectors benefited from a combination of corporate tax reform, steadily increasing interest rates, talk of moderate regulatory relief, and favorable expense/fundamental trends. Asset managers, life insurance, consumer finance, and commercial real estate investment trusts lagged due to fears related to the pace of interest rate increases, overall market sensitivity, inflation expectations, and economic cyclicality.

We continue to believe that the strength of the economy – as evidenced by low unemployment claims, strong consumer confidence, increased CEO confidence, and rising but moderate inflation combined with good company fundamentals and strong balance sheets – creates an opportunity to find attractive multi-year investments in the financials sector. Valuations remain attractive and capital return levels favorable in the face of steadily increasing interest rates, lower taxes, and potentially lower overall regulatory burdens. We continue to expect strong growth in earnings-per-share and attractive total return yields for the sector.

Best Performers

Long Portfolio

- Property and casualty insurance company **Validus Holdings Ltd.** announced an acquisition offer from AIG, representing a significant premium for shareholders.

- 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.

- Shares of banking and financial services company **First Republic Bank** recovered after initial concerns about their net interest margin from the flattening yield curve in late 2017. Management has also said they will have a more watchful eye on expense growth in the near term.

- Shares of regional bank **SVB Financial Group** rose as the interest rate outlook and health of the innovation economy continue to benefit the company. The franchise remains very well-positioned for this market environment.

Short Portfolio

- Property and casualty insurance company **Mercury General Corp.** reported weak fourth-quarter results which were impacted by both high catastrophe losses and adverse development.

DIAMOND HILL | FUNDS

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Worst Performers

Long Portfolio

- Commercial insurer **Atlas Financial Holdings, Inc.** pre-announced disappointing fourth-quarter results as it had to increase reserves significantly for business written in prior years. While the company continues to benefit from strong demand and pricing in commercial auto, it is disappointing that management has been unable to put past reserve issues to rest.

- Asset management firm **Franklin Resources, Inc.** continues to struggle to stem outflows. On the positive side, the company continues to generate significant cash and all of its international cash is now available for shareholders given the changes in U.S. tax laws.

- 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.

PERIOD AND AVERAGE ANNUAL TOTAL RETURNS AS OF MARCH 31, 2018

	SINCE INCEPTION[1] (8/1/97)	10-YR	5-YR	3-YR	1-YR	YTD	1Q18	EXPENSE RATIO[2]
RETURNS AT NAV (WITHOUT SALES CHARGE)								
Class A	7.36%	5.77%	9.77%	7.50%	6.37%	-2.59%	-2.59%	1.86%
Class C	6.59	4.96	8.95	6.69	5.59	-2.75	-2.75	2.61
Class I	7.56	6.11	10.07	7.83	6.69	-2.51	-2.51	1.57
BENCHMARK								
Russell 3000 Financials Index	6.02	6.48	14.17	12.45	15.85	-0.50	-0.50	—
80%/20% Blended Index	5.55	5.64	11.38	10.09	12.81	-0.30	-0.30	—
RETURNS AT POP (WITH SALES CHARGE)								
Class A	7.09	5.23	8.64	5.68	1.05	-7.47	-7.47	1.86
Class C	6.59	4.96	8.95	6.69	4.59	-3.72	-3.72	2.61

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

[2] Includes dividend expense relating to short sales. If dividend expenses relating to short sales were excluded, the Expense Ratio for the Financial Long-Short Fund would have been 1.41% for Class A, 2.16% for Class C, and 1.12% for Class I.

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 March 31, 2018, are subject to change and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice.

The performance data quoted represents past performance; past performance does not guarantee future results. *The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the most recent month-end, within 7 business days, at diamond-hill.com.*

Performance returns assume reinvestment of all distributions. Returns for periods less than one year are not annualized. Class C and Class I shares include Class A share performance achieved prior to the creation of Class C and Class I. The returns at POP reflect the maximum sales charge applicable to each class. The maximum sales charge for A shares is 5.00%; C shares have a maximum contingent deferred sales charge (CDSC) of 1.00% for redemptions within the first year of purchase; I shares have no sales charge.

Fund holdings subject to change without notice.

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

The index data referenced herein is the property of ICE Data Indices, LLC, its affiliates ("ICE Data") and/or its third party suppliers and has been licensed for use by Diamond Hill Capital Management, Inc. ICE Data and its third party suppliers accept no liability in connection with its use. See diamond-hill.com for a full copy of the disclaimer. ICE Data was not involved in the creation of the blended index.

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 Foreside Financial Services, 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.

- Shares of **iStar, Inc.** suffered along with other real estate investment companies, which was the worst-performing sector in the quarter thanks to slowing fundamentals and the rapid rise in the 10-year Treasury yield. iStar's results were largely in line and we remain encouraged by the company undertaking a strategic review of their legacy asset book

- 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.

Short Portfolio

- The five worst performers were long positions.

New Positions

Long Portfolio

- **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.

- We initiated a position in Spanish bank **Banco Bilbao Vizcaya Argentaria, S.A. ADR**. In addition to its market-leading position in Spain, the firm has significant presence in several high-growth, high-return markets around the world. BBVA is also an early adopter of banking digitalization and has invested in upgrading its technology and infrastructure; therefore, the company is very well-positioned to fend off any potential threat from banking disintermediation longer term.

- We added residential real estate investment trust **Mid-America Apartment Communities, Inc.** as shares were trading at an attractive valuation following disappointing 2018 revenue guidance. The company has seen slower revenue as a result of their late 2016 merger with Post Properties; however, we believe the company's strong balance sheet, operating platform, and differentiated market exposure result in a high-quality company and good long-term cash flow compounding.

- Payment technology company **First Data Corp. (Cl A)** is the largest payment processor in the world and is still recovering from a very difficult leveraged buyout in 2007. The company has shored up its management team, which has deleveraged the balance sheet and reduced the firm's interest expense burden in recent years. Cash flow generation is significant and the shares are attractively valued compared to other processing peers.

- **Global Indemnity Ltd. (Cl A)** is a small specialty property and casualty insurance company that has had consistent profitable growth and a history of strong underwriting and conservative reserves. Return on equity has been understated due to holding excess capital and we believe the shares are attractive.

Short Portfolio

- We did not add any short positions during the quarter..

Eliminated Positions

Long Portfolio

- We eliminated shares of real estate investment trust **Colony NorthStar, Inc. (Cl 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.

- While we believe real estate investment company **Jones Lang LaSalle, Inc.** remains a strong long-term franchise, its earnings and stock tend to be volatile and it has significantly outperforming other real estate sub-sectors in 2017 and 2018-to-date. We exited the position and reinvested the proceeds into more attractive names.

Short Portfolio

- Following the company's weak fourth-quarter results, shares of property and casualty insurance company **Mercury General Corp.** approached our estimate of intrinsic value and we eliminated our short position.

MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF MARCH 31, 2018

Atlas Financial Holdings, Inc.	1.2%	Long	**iStar, Inc.**	3.8%	Long
Banco Bilbao Vizcaya Argentaria, S.A. ADR	1.8	Long	**Jones Lang LaSalle, Inc.**	0.0	Long
Bank of the Ozarks	2.9	Long	**Mercury General Corp.**	0.0	Short
Colony NorthStar, Inc. (Cl A)	0.0	Long	**MetLife, Inc.**	4.1	Long
Discover Financial Services	5.1	Long	**Mid-America Apartment Communities, Inc.**	1.6	Long
First Data Corp. (Cl A)	1.6	Long	**Popular, Inc.**	3.0	Long
First Republic Bank	3.3	Long	**SVB Financial Group**	3.9	Long
Franklin Resources, Inc.	2.8	Long	**Validus Holdings Ltd.**	3.0	Long
Global Indemnity Ltd. (Cl A)	0.8	Long			

Mentioned securities not held in the Diamond Hill Financial Long-Short Fund: American International Group, Inc.

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.