Diamond Hill Research Opportunities Fund Commentary

As of March 31, 2018

The Fund decreased 4.28% (Class I) during the quarter, compared to a 0.64% decrease in the long-only Russell 3000 Index and a 0.36% decrease 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 was the primary detractor from absolute return led by holdings in the consumer discretionary and financials sectors, partially offset by positions in the information technology sector. The short portfolio also detracted from return led by positions in the information technology, health care, and industrials sectors.

The Fund's underperformance relative to the long-only benchmark was primarily driven by security selection in the consumer discretionary and financials sectors. Security selection in the consumer staples sector also detracted from relative return; however, this was offset by the negligible allocation to the sector. An underweight allocation to the energy sector also contributed to relative return.

The Fund's net exposure was 90% at the end of the quarter.

Best Performers

Long Portfolio

- Information technology services provider **Cognizant Technology Solutions Corp. (Cl A)** reported strong fourth-quarter earnings and provided 2018 guidance that included a favorable combination of revenue growth and operating margin expansion.
- 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 ski resort owner and operator **Vail Resorts, Inc.** rebounded from a depressed stock price entering the quarter due to weather concerns at multiple locations. The company has navigated the ski season well though snow has been difficult to come by this year.

PORTFOLIO MANAGEMENT

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

- Shares of airline operator **United Continental Holdings, Inc.** rose as the demand and revenue environment remains strong and the company increased revenue and margin guidance for the first quarter. Despite a meaningful pullback when the company announced its capacity growth plans for the next few years, the stock rebounded as management made its case as to why this planned capacity growth will not lead to a meaningful deterioration to industry pricing.
- Shares of information technology services company **WNS (Holdings) Ltd. ADR** rose after the company reported strong quarterly earnings results which reinforced the notion that management should be able to continue to generate attractive growth in the company's recurring revenue base.

Short Portfolio

- The five best performers were long positions.

Worst Performers

Long Portfolio

- Despite no fundamental changes, casino operator **Red Rock Resorts, Inc. (Cl 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 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.
- 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

DIAMOND HILL FUNDS

- Shares of freight transportation management company **Hub Group, Inc. (Cl A)** 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.
- Telecommunication services provider **Cincinnati Bell, Inc.** delivered fourth-quarter results and 2018 guidance that was moderately disappointing. The company's wireline segment continues to deliver consistent performance, while the firm's IT services business is performing poorly. We believe acquisitions have increased financial and business risk; however, the company's market position is durable and shares trade well below our estimate of intrinsic value.

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

	SINCE INCEPTION (3/31/09)	5-YR	3-YR	1-YR	YTD	1Q18	EXPENSE RATIO[1]
RETURNS AT NAV (WITHOUT SALES CHARGE)							
Class A	12.25	7.08	3.11	3.60	-4.33	-4.33	1.80%
Class C	11.41	6.28	2.33	2.82	-4.51	-4.51	2.55
Class I	12.55	7.37	3.41	3.88	-4.28	-4.28	1.51
Class Y	12.70	7.51	3.52	4.01	-4.27	-4.27	1.39
BENCHMARK							
Russell 3000 Index	16.83	13.03	10.22	13.81	-0.64	-0.64	—
75%/25% Blended Index	12.62	9.81	7.81	10.55	-0.36	-0.36	—
RETURNS AT POP (WITH SALES CHARGE)							
Class A	11.61	5.99	1.36	-1.59	-9.11	-9.11	1.80
Class C	11.41	6.28	2.33	1.82	-5.46	-5.46	2.55

[1] Includes 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 1.41% for Class A, 2.16% for Class C, 1.12% for Class I, and 1.00% 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 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.*

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.

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.

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.

- **Sanmina-SCI Corp.** is a contract manufacturer that has been gradually diversifying away from traditional electronics manufacturing into more stable, longer cycle and growth-oriented industrial, medical and defense end markets. We believe shares of Sanmina are undervalued relative to its long-term fundamentals.

- Social media company **Facebook, Inc. (Cl 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.

- **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.

- 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.

- We initiated a long position in national wireless carrier **T-Mobile US, Inc.** We believe T-Mobile will benefit from significant margin expansion as it realizes operating leverage on its growth investments through a continued, but moderating, pace of phone subscriber share gain from larger national carriers. T-Mobile is on track to generate cash equal to a sizeable percentage of its current market capitalization, and management has announced plans for a large share repurchase in the near term.

- **Shandong Weigao Group Medical Polymer Co. Ltd. (Cl H)** is one of the largest medical device manufacturers in China. While the country's new policies aimed at curbing multiple layers of distributors may temporarily depress sales, we believe the combination of an underpenetrated market and a large direct sales force translates into strong organic growth. Diversifying revenues across products and geographies should help reduce China-specific risk and improve the multiple.

- Investment holding company **Fairfax India Holdings Corp.** invests in a small number of high-quality companies, both public and private, in a manner similar to private equity firms but backed by permanent capital from equity investors.

- **Stericycle, Inc.** is the largest provider of regulated medical waste management. The company provides a full roster of services to its customers from front-end waste collection to transportation and treatment at the company's facilities. Stericycle also owns Shred-It, a leading provider of shredding services, and has a growing international business.

- We bought a position in industrial machinery and engineering company **Colfax Corp.** when the stock sold off after the company reported disappointing fourth-quarter results and reducing their operating guidance for 2018. The company is currently struggling with some temporary headwinds but we believe the recent stock weakness creates an attractive opportunity for long-term investors.

- Specialty chemical and materials producer **W.R. Grace & Co.** is a leading provider of catalysts and additives for both the refining and polyolefin industries. Recent market volatility has provided us the opportunity to buy a very good business with a solid management team at a discount to its intrinsic value.

- 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.

- We purchased bonds of diversified telecommunications company **Frontier Communications Corp. 9.25% due 2021** at what we viewed as an attractive yield and position in the capital structure. Shortly after our purchase, Frontier tendered our notes at a premium. We used the proceeds to purchase second lien-secured **8.5% due 2026** notes also issued by Frontier.

- Medical device manufacturer **Natus Medical, Inc.** is a leading provider of newborn care services, including products related to the detection, diagnosis and monitoring of common newborn disorders. More recently the company has expanded into neurology, providing products to assess neurological dysfunction, epilepsy, sleep disorders and neuromuscular diseases. We then sold the stock during the quarter as it approached our estimate of intrinsic value.

Short Portfolio

- We initiated a short position in specialty retailer **Bed Bath & Beyond, Inc.** due to ongoing competition from the likes of Amazon and Wayfair and the resulting negative impact on company margins. Declining margins will continue to pressure cash flow and returns. Bed Bath & Beyond was slow to realize the importance of developing an online presence and continues to play from behind while concurrently dealing with negative store traffic.

- We again established a short position in apparel company **Lululemon Athletica, Inc.** when the valuation reached a point where the stock price is discounting revenue growth and margin levels that we don't believe are sustainable over the longer term. While Lululemon is still growing well and remains a relevant brand, the athletic wear category is highly competitive and the company's store base is saturated in its core markets in the U.S. and Canada.

Eliminated Positions

Long Portfolio

- The following positions were sold during the quarter to make room for more attractive opportunities: global electronic equipment distributor **Avnet, Inc.**, processed and packaged goods manufacturer **B&G Foods, Inc.**, pharmacy benefit manager **Express Scripts Holding Co.**, automobile manufacturer **Ford Motor Co.**, food products manufacturer **Post Holdings, Inc.**, flow components manufacturer **SPX Flow, Inc.**, real estate investment trust **Tanger Factory Outlet Centers, Inc.**, and specialty pharmaceutical company **Valeant Pharmaceuticals International, Inc.**

- We eliminated industrial supplies distributor **Fastenal Co.** as the business reached our estimate of intrinsic value.

- Packaged foods manufacturer **TreeHouse Foods, Inc.** was eliminated after reporting another quarter of very weak results and deteriorating fundamentals.

Short Portfolio

- We eliminated our short position in biotechnology company **Bioverativ, Inc.** upon the announcement that the company would be acquired by French pharmaceutical company Sanofi.

- We covered our short position in oilfield services company **RPC, Inc.** as the premium to our estimate of intrinsic value narrowed.

MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF MARCH 31, 2018

Atlas Financial Holdings, Inc.	0.5%	Long	**Mid-America Apartment Communities, Inc.**	0.3%	Long
Avnet, Inc.	0.0	Long	**Natus Medical, Inc.**	0.0	Long
B&G Foods, Inc.	0.0	Long	**NVR, Inc.**	2.7	Long
Bank of the Ozarks	1.6	Long	**Post Holdings, Inc.**	0.0	Long
Bed Bath & Beyond, Inc.	(0.1)	Short	**Red Rock Resorts, Inc. (Cl A)**	5.2	Long
Bioverativ, Inc.	0.0	Short	**RPC, Inc.**	0.0	Short
Cal-Maine Foods, Inc.	1.0	Long	**Sanmina-SCI Corp.**	1.4	Long
Cincinnati Bell, Inc.	0.9	Long	**Shandong Weigao Group Medical Polymer Co. Ltd.**	0.5	Long
Cognizant Technology Solutions Corp. (Cl A)	3.8	Long	**SPX Flow, Inc.**	0.0	Long
Colfax Corp.	0.4	Long	**Stericycle, Inc.**	0.4	Long
Express Scripts Holding Co.	0.0	Long	**Tanger Factory Outlet Centers, Inc.**	0.0	Long
Facebook, Inc. (Cl A)	1.0	Long	**Texas Instruments, Inc.**	0.9	Long
Fairfax India Holdings Corp.	0.5	Long	**T-Mobile US, Inc.**	0.7	Long
Fastenal Co.	0.0	Long	**TreeHouse Foods, Inc.**	0.0	Long
Ford Motor Co.	0.0	Long	**United Continental Holdings, Inc.**	6.4	Long
Frontier Communications Corp. 8.5% due 2026	0.8	Long	**Vail Resorts, Inc.**	5.7	Long
Frontier Communications Corp. 9.25% due 2021	0.0	Long	**Valeant Pharmaceuticals International, Inc.**	0.0	Long
GlaxoSmithKline PLC ADR	3.8	Long	**W. R. Grace & Co.**	0.4	Long
Hub Group, Inc. (Cl A)	3.2	Long	**WNS (Holdings) Ltd. ADR**	1.5	Long
Lululemon Athletica, Inc.	(0.6)	Short			

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

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.