

*(closed to new investors)*

The Fund decreased 1.16% (Class I) during the quarter, compared to a 0.24% decrease in the Russell 2500 Index.

The Fund'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 Fund's underperformance relative to the 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.

## PORTFOLIO MANAGEMENT



Chris Welch, CFA  
Portfolio Manager



Jenny Hubbard, CFA  
Asst. Portfolio Manager



Tom Schindler, CFA  
Asst. Portfolio Manager

- 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.

## 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.



# Diamond Hill Small-Mid Cap Fund Commentary

As of March 31, 2018

*(closed to new investors)*

- Industrial manufacturing and engineering company **Colfax Corp.** reported disappointing fourth-quarter 2017 results and reduced operating guidance for 2018.

## 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.

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

	SINCE INCEPTION (12/30/05)	10-YR	5-YR	3-YR	1-YR	YTD	1Q18	EXPENSE RATIO	
								GROSS	NET <sup>1</sup>
RETURNS AT NAV (WITHOUT SALES CHARGE)									
<b>Class A</b>	8.80%	10.30%	10.59%	6.90%	4.37%	-1.26%	-1.26%	1.23%	1.22%
<b>Class C</b>	8.01	9.49	9.76	6.11	3.64	-1.42	-1.42	1.98	1.97
<b>Class I</b>	9.16	10.63	10.91	7.21	4.73	-1.16	-1.16	0.94	0.93
<b>Class Y</b>	9.03	10.58	11.06	7.34	4.82	-1.11	-1.11	0.82	0.81
BENCHMARK									
<b>Russell 2500 Index</b>	8.89	10.28	11.55	8.15	12.31	-0.24	-0.24	—	—
RETURNS AT POP (WITH SALES CHARGE)									
<b>Class A</b>	8.35	9.73	9.47	5.07	-0.84	-6.19	-6.19	1.23	1.22
<b>Class C</b>	8.01	9.49	9.76	6.11	2.64	-2.41	-2.41	1.98	1.97

<sup>1</sup>The Fund may invest in another Diamond Hill Fund. Diamond Hill Capital Management, Inc. is required to permanently waive a portion of its management fee in the pro-rata amount of the management fee charged by the underlying Diamond Hill Fund.

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

The views expressed are those of the portfolio managers as of 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](http://diamond-hill.com).

Performance returns assume reinvestment of all distributions. Returns for periods less than one year are not annualized. Class Y shares include Class A share performance achieved prior to the creation of Class Y shares. These total return figures may reflect the waiver of a portion of a Fund's advisory or administrative fees for certain periods. Without such waiver of fees, the total returns would have been lower. The returns at POP reflect the maximum sales charge applicable to each class. The maximum sales charge for A shares is 5.00%; C shares have a maximum contingent deferred sales charge (CDSC) of 1.00% for redemptions within the first year of purchase; I shares and Y shares have no sales charge.

Fund holdings subject to change without notice.

The Russell 2500 Index is an unmanaged market capitalization-weighted index comprised of the smallest 2,500 companies by market capitalization in the Russell 3000 Index, which is comprised of the 3,000 largest U.S. companies by total market capitalization. This index does not incur fees and expenses (which would lower the return) and is not available for direct investment.

**An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other important information about the Fund(s) can be found in the Fund's(s) prospectus or summary prospectus which can be obtained at [diamond-hill.com](http://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.**

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## 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.

## MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF MARCH 31, 2018

Aaron's, Inc.	1.8%	NVR, Inc.	2.1%
B&G Foods, Inc.	1.3	Red Rock Resorts, Inc. (CI A)	2.4
Bank of the Ozarks	1.6	Vail Resorts, Inc.	0.2
Cimarex Energy Co.	3.1	Validus Holdings Ltd.	3.1
Colfax Corp.	1.6	Whirlpool Corp.	0.0
Colony NorthStar, Inc. (CI A)	0.0	Worldpay, Inc. (CI A)	2.4
Formula One Group	0.5	XL Group Ltd.	1.3
Kirby Corp.	2.5		

Mentioned securities not held in the Diamond Hill Small-Mid Cap Fund: American International Group, Inc., AXA SA, and Liberty Global PLC

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](mailto:info@diamond-hill.com).