

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



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## 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

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. The verification report(s) is/are available upon request. 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. Verification does not ensure the accuracy of any specific composite presentation. 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 Mid Cap Composite is comprised of discretionary, fee-paying, non-wrap accounts managed according to the firm's Mid Cap equity strategy. The strategy's investment objective is to achieve long-term capital appreciation by investing in medium market capitalization companies selling for less than our estimate of intrinsic value. Medium market capitalization companies are defined as those companies with a market capitalization between \$1.5 and \$20 billion (or, if greater, the maximum market capitalization of companies generally within the capitalization range of the Russell Midcap 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 Midcap Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 800 smallest companies, on a market capitalization basis, in the Russell 1000 Index. The Russell Midcap Value Index is shown as additional information. This index is an unmanaged market-capitalization weighted index measuring the performance of the mid cap value segment of the U.S. equity universe including those Russell Midcap Index companies with lower expected growth values. The Russell 1000 Index measures the performance of the largest 1,000 companies in the Russell 3000 Index. 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 Mid Cap separate accounts is as follows: First \$20,000,000 = 0.75%; Over \$20,000,000 = 0.60%. 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. **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.