

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



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- 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.

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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.

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