

*(closed to new investors)*

The Composite decreased 1.11%, net of fees, compared to a 0.24% decrease in the Russell 2500 Index and a 2.65% decrease in the Russell 2500 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 sector contributed to return.

The Composite's underperformance relative to the Russell 2500 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.
- 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.

## PORTFOLIO MANAGEMENT



Chris Welch, CFA  
Portfolio Manager



Jenny Hubbard, CFA  
Asst. Portfolio Manager



Tom Schindler, CFA  
Asst. Portfolio Manager

## 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.
- Shares of freight transportation management company **Hub Group, Inc. (CIA)** 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.

## 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.



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- **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

- 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.

# Diamond Hill Small-Mid Cap Strategy

As of March 31, 2018

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## PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2005

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	1Q18
SMALL-MID CAP COMPOSITE							
Gross of Fees	10.15	11.63	12.02	8.26	5.67	-0.92	-0.92
Net of Fees	9.35	10.82	11.24	7.50	4.89	-1.11	-1.11
BENCHMARKS							
Russell 2500 Index	8.89	10.28	11.55	8.15	12.31	-0.24	-0.24
Russell 2500 Value Index	7.86	9.34	9.88	7.26	5.72	-2.65	-2.65

## CALENDAR YEAR RETURNS (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
SMALL-MID CAP COMPOSITE										
Gross of Fees	-29.38	41.71	24.74	-2.96	16.93	43.32	8.43	2.45	19.31	9.63
Net of Fees	-29.99	40.52	23.72	-3.62	16.19	42.39	7.70	1.75	18.47	8.85
BENCHMARKS										
Russell 2500 Index	-36.79	34.39	26.71	-2.51	17.88	36.80	7.07	-2.90	17.59	16.81
Russell 2500 Value Index	-31.99	27.68	24.82	-3.36	19.21	33.32	7.11	-5.49	25.20	10.36

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-Mid Cap Composite has received a Performance Examination from 12/31/05 – 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-Mid Cap Composite is comprised of discretionary fee paying non-wrap accounts managed according to the firm's Small-Mid Cap equity strategy. The strategy's investment objective is to achieve long-term capital appreciation by investing in small and medium capitalization companies selling for less than our estimate of intrinsic value. The Composite typically invests in small and medium capitalization companies which are defined as those companies with a market capitalization between \$500 million and \$10 billion (or, if greater, the maximum market capitalization of companies generally within the capitalization range of the Russell 2500 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 2500 Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 2,500 smallest companies, on a market capitalization basis, in the Russell 3000 Index. The Russell 2500 Value Index is shown as additional information. This index is an unmanaged market capitalization weighted index measuring the performance of the small and midcap value segment of the U.S. equity universe including those Russell 2500 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-Mid Cap separate accounts is as follows: First \$20,000,000 = 0.95%; Over \$20,000,000 = 0.75%. The dispersion measure is the asset weighted standard deviation of the annual portfolio returns. Only portfolios

AS OF YEAR-END	DHCM	SMALL-MID CAP COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management Dispersion (Gross of Fees)	Small-Mid Cap Composite	Russell 2500 Index	Russell 2500 Value Index
2017	\$22.3B	16	\$3.2B	0.10%	9.97%	12.13%	11.81%
2016	19.4B	18	3.0B	0.05	11.25	13.67	13.17
2015	16.8B	12	1.9B	0.17	11.09	12.42	12.02
2014	15.7B	11	1.1B	0.13	11.20	11.67	11.25
2013	12.2B	9	586.7M	0.39	14.51	15.63	15.07
2012	9.4B	6	233.7M	0.10	16.13	18.97	18.41
2011	8.7B	6	189.2M	0.05	24.12	23.40	24.23
2010	8.6B	6	97.2M	0.16	NA	NA	NA
2009	6.3B	6	64.1M	1.20	NA	NA	NA
2008	4.5B	8	47.9M	0.53	NA	NA	NA

NA = Not Applicable

This composite was created in October 2013.

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 or review of this report/advertisement.

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