



**DIAMOND
HILL** | CAPITAL
MANAGEMENT

Quarterly Commentary: Equity Composites

June 30, 2018

Small Cap *(closed to new investors)*

Large Cap Concentrated

Small-Mid Cap *(closed to new investors)*

All Cap Select

Mid Cap

Global

Large Cap

Our Mission

At Diamond Hill, *we serve* our clients by providing investment strategies that deliver lasting value through a shared commitment to our intrinsic value-based investment philosophy, long-term perspective, disciplined approach and alignment with our clients' interests.

VALUE

We believe market price and intrinsic value are independent in the short-term but tend to converge over time.

LONG-TERM

We maintain a long-term focus both in investment analysis and management of our business.

DISCIPLINE

We invest with discipline to increase potential return and protect capital.

PARTNERSHIP

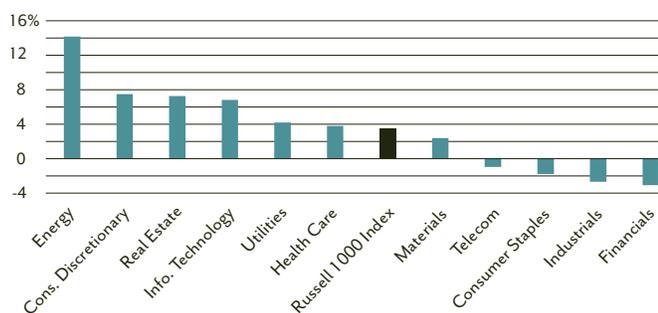
We align our interests with those of our clients through significant personal investment in our strategies.

Second Quarter 2018 Review: Equity Markets

The Russell 1000 Index generated a strong 3.6% return in the second quarter despite the increasing rhetoric around tariffs, trade wars, and the potential for an inverted yield curve. Although volatility receded from first quarter levels, it was still notably above what was experienced in 2017.

Energy was by far the best-performing sector during the quarter, up 14.2%, as oil prices continued to move higher. Consumer Discretionary returned 7.5% with Amazon and Netflix driving performance, while Real Estate (+7.3%) bounced back from the first quarter's 5.9% decline. The possibility of a trade war did weigh on Industrials (-2.7%), as tariffs on commodities like steel and aluminum have an outsized impact on some companies in the sector. Financials was the worst performing sector this quarter, down 3.1%, as investors became concerned about the flattening of the yield curve.

RUSSELL 1000 SECTOR RETURNS - 2Q18



Source: FactSet

Small caps notably outperformed large caps in the second quarter, with the Russell 2000 Index returning 7.8%. This outperformance is due to several factors. First, the risk of a global trade war has less impact on small caps since they generally do less business outside of the United States. Second, because they do less business outside of the United States, the recent strength in the U.S. Dollar also has less of a negative impact on small caps relative to large caps. Finally, with higher tax rates than their large cap peers, small caps have more to gain from the recently-lowered U.S. corporate tax rate.

Year-to-date, the Russell 1000 Index posted a 2.8% return. Information Technology was the top performing sector (+11.0%), followed by Consumer Discretionary (+9.5%) and Energy (+7.6%). Telecommunication Services (-8.2%) and Consumer Staples (-7.9%) were notable underperformers. Growth continues to vastly outperform Value, with the Russell 1000 Growth Index outperforming the Russell 1000 Value Index by approximately 900 basis points. This is in large part due to the aforementioned strength in the Information Technology and Consumer Discretionary sectors.

Outlook

Corporate tax reform has already started to benefit U.S. companies. Repatriation of cash held overseas ticked up dramatically in the first quarter, and we are already seeing that cash being utilized for share repurchases and acquisitions. Lower tax rates have also started to boost earnings growth. However, we believe that for many companies this benefit will largely be competed away over time. Our research team continues to evaluate the impact of tax reform on a company-by-company basis and update our estimates of intrinsic value accordingly.

Assessing the impact of macroeconomic factors has been more important in recent years; however, it is still just one of many factors that we consider. As always, bottom-up analysis is of primary importance in estimating the intrinsic value of an individual company, which includes both valuation and business fundamentals.

The size of recently implemented tariffs is small relative to the total economy, and thus far it is not affecting how we are positioning our portfolios. Broadly speaking, we think cooler heads will prevail but we view the impacts on individual companies as very difficult to forecast.

Low interest rates, high corporate profit margins, and steady economic growth with low inflation have continued to contribute to historically high stock valuations. High valuations make it more challenging to find new investment opportunities for the equity portfolios. In this environment where the discount to our estimate of intrinsic value is likely to be narrower, we have focused on maintaining or upgrading the quality of the businesses we own. When evaluating new and current positions with a smaller discount to our estimate of intrinsic value, we remain focused on assessing risk, which we define as permanent loss of capital.

Second Quarter 2018 Review: Equity Markets

At current valuation levels, we've historically seen annual stock market returns of 5% or less. We continue to expect positive but below-average equity market returns over the next five years. Prospective returns are likely to be tempered by the combination of above-average price/earnings multiples applied to already very strong levels of corporate profit margins.

We believe we can achieve better-than-market returns over the next five years through active portfolio management, and our primary focus is always on achieving value-added results for our existing clients. Our intrinsic value investment philosophy is shared by all of our portfolio managers and research analysts, allowing us to apply our investment discipline consistently across strategies.

The views expressed are those of Diamond Hill as of June 30, 2018 and are subject to change. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice. Equity portfolio holdings are subject to change and will be made available at least monthly for download at diamond-hill.com, typically on the seventh (7th) business day following the most recent month ending date.

The Composite increased 1.63%, net of fees, compared to a 7.75% increase in the Russell 2000 Index and an 8.30% increase in the Russell 2000 Value Index.

The Composite's holdings in the consumer discretionary sector were the largest contributors to absolute return, followed by positions in the consumer staples, real estate, and energy sectors. Holdings in the industrials and financials sectors were the primary detractors from absolute return.

The Composite's underperformance relative to the Russell 2000 Index was primarily driven by security selection in the information technology, industrials, and financials sectors, as well as the Composite's cash allocation. Security selection in the utilities sector and an underweight allocation to the materials sector were slight contributors to relative return.

Best Performers

- Ski resort owner and operator **Vail Resorts, Inc.** announced strong early season pass sales for 2019, demonstrating competitor passes are not eroding its competitive position. The company delivered solid results for the quarter as conditions improved and announced acquisitions that bolster Vail's presence in New England and the Pacific NW regions.
- Shares of entertainment company **Live Nation Entertainment, Inc.** recovered from a late first quarter decline following a New York Times report of a Department of Justice investigation into potential Consent Decree violations, which the company has emphatically denied, related to its acquisition of Ticketmaster. The company's guidance of double-digit adjusted operating income growth alleviated investor concerns about slower growth due to fewer stadium tours.
- Freight transportation management company **Hub Group, Inc. (CIA)** outperformed as intermodal pricing improved meaningfully due to strong demand as well as supply constraints in the competing truckload market. We believe the improved contractual pricing should lead to strong margin improvement beginning in the second half of 2018.
- Casino operator **Red Rock Resorts, Inc. (CIA)** rebounded strongly in the second quarter after reporting solid results driven by investment in a new slot system that enhanced customer engagement. The result was a 6% increase in gaming revenue and incremental margins above the typical range. The company is delivering on schedule with its recent renovations of Palace Station and The Palms.

(closed to new investors)

PORTFOLIO MANAGEMENT



Tom Schindler, CFA
Portfolio Manager



Aaron Monroe, CFA
Asst. Portfolio Manager



Chris Welch, CFA
Asst. Portfolio Manager

- Shares of processed and packaged foods manufacturer **B&G Foods, Inc.** rose after reporting quarterly earnings that exceeded investor expectations.

Worst Performers

- Shares of rental car company **Avis Budget Group, Inc.** declined despite improved first quarter results that exceeded consensus analyst expectations and stronger used car prices, which should be a positive for Avis. However, the potential negative impacts from signs of weaker rental car pricing in June, tariff threats on new car imports, and a stronger dollar weighed heavily on the stock price.
- Medical liability insurance company **ProAssurance Corp.** missed earnings expectations in the quarter as reserve releases were lower than usual. Management was cautious with releasing reserves due to recent large liability verdicts. The company continues to be managed with significant excess capital and high-quality underwriting.
- Shares of networking and communications company **CommScope Holding Co., Inc.** declined after the firm shared a disappointing full-year outlook with investors.
- Auto parts manufacturer **Tenneco, Inc.** declined in response to the risk of new automotive tariffs and higher interest rates, which could put pressure on auto sales as vehicles become more expensive. Tenneco is in the process of acquiring Federal-Mogul. Once completed, the resulting company will split into two new companies, creating the possibility of share dilution and uncertainty around the future prospects for the two standalone companies.
- Shares of leisure travel company **Allegiant Travel Co.** declined after a damaging report on CBS's 60 Minutes which hurt public relations and investor sentiment. In addition, rising fuel prices and intense pricing competition have put pressure on the entire airline sector. Allegiant continues to work through the transition of its aircraft fleet from the MD-80 to the A320. The transition should be complete by the end of 2018, simplifying operations and allowing management to focus on profitable growth.

(closed to new investors)

New Positions

- Health care services company **Stericycle, Inc.** is the largest provider of regulated medical waste management from front-end waste collection to transportation and treatment at the company's facilities. We purchased the stock after a series of weak quarters and subsequent price decline below our estimate of intrinsic value. Stericycle is the share leader, and we believe that management will be able to overcome recent transitory challenges to grow the business.
- Despite a positive first quarter earnings report, life insurance and annuity provider **Brighthouse Financial, Inc.** shares sold off during the quarter providing an attractive investment opportunity. We believe the selloff was due to a combination of short-term investor concerns – a sharp negative turn in sentiment on life insurers, technical pressure from Metlife's debt exchange for its stake in Brighthouse, and pessimistic market views on variable annuity businesses.

Eliminated Positions

- SS&C Technologies Holdings, Inc. completed its all cash acquisition of business software and services provider **DST Systems, Inc.** in mid-April at a price of \$84, eliminating our position.

Diamond Hill Small Cap Strategy

As of June 30, 2018

(closed to new investors)

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2000

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	2Q18
SMALL CAP COMPOSITE							
Gross of Fees	11.99	9.79	9.58	7.37	10.70	1.09	1.83
Net of Fees	11.12	8.93	8.73	6.51	9.84	0.69	1.63
BENCHMARKS							
Russell 2000 Index	8.68	10.60	12.46	10.96	17.57	7.66	7.75
Russell 2000 Value Index	9.46	9.88	11.18	11.22	13.10	5.44	8.30

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 5/31/00–3/31/18. 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 12/31/00–3/31/18. 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 = 0.90%; 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. GIPS is a trademark of CFA Institute. CFA Institute has not been involved in the preparation or review of this report/advertisement.

**Global Investment
Performance Standards**

(closed to new investors)

The Composite increased 2.92%, net of fees, compared to a 5.71% increase in the Russell 2500 Index and a 5.80% increase in the Russell 2500 Value Index.

The Composite's holdings in every sector except industrials contributed to absolute return, led by positions in the real estate, health care, and utilities sectors.

The Composite's underperformance relative to the Russell 2500 Index was primarily driven by security selection in the consumer discretionary sector, as well as a combination of unfavorable security selection and an overweight allocation to the financials sector. An underweight allocation to the industrials sector and security selection in the health care and utilities sectors were the primary contributors to relative return.

Best Performers

- Shares of medical device manufacturer **Boston Scientific Corp.** rose on rumors of an acquisition by Stryker that did not materialize. Standalone performance continues to be excellent across segments, and we believe balance sheet flexibility will improve going forward as the company moves past mesh litigation settlements.
- Freight transportation management company **Hub Group, Inc. (CIA)** outperformed as intermodal pricing improved meaningfully due to strong demand as well as supply constraints in the competing truckload market. We believe the improved contractual pricing should lead to strong margin improvement beginning in the second half of 2018.
- Utility provider **UGI Corp.** reported good quarterly results and raised its guidance for the full year. On a year-over-year basis, results were aided by colder weather; however, the slightly warmer than longer-term average temperatures makes current year earnings reflective of normalized earnings power. In addition, the tax law changes passed in late 2017 are having a positive impact, and the company continues to explore natural gas pipeline opportunities in its service territories, including delivering gas from the Marcellus shale, which would add to its asset base.
- Shares of processed and packaged foods manufacturer **B&G Foods, Inc.** rose after reporting quarterly earnings that exceeded investor expectations.

PORTFOLIO MANAGEMENT



Chris Welch, CFA
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Tom Schindler, CFA
Asst. Portfolio Manager

- Shares of real estate investment trust **CubeSmart** benefitted from the general REIT rally in the second quarter as long-term interest rates fell, several sectors saw fundamentals stabilize, and a few merger and acquisition (M&A) deals highlighted the discount between public and private real estate values. CubeSmart in particular benefitted from still-solid storage fundamentals despite heavy development deliveries and the expectation for improving fundamentals in future years as development slows.

Worst Performers

- Global automotive supplier **BorgWarner, Inc.** underperformed as the risk of new automotive tariffs and higher interest rates could put pressure on auto sales in the coming years as vehicles become more expensive.
- Shares of insurance company **Brighthouse Financial, Inc.** declined despite a positive first quarter earnings report. We believe the selloff was due to a combination of short-term investor concerns – a sharp negative turn in sentiment on life insurers, technical pressure from MetLife's debt exchange for its stake in Brighthouse, and pessimistic market views on variable annuity businesses.
- Shares of leisure travel company **Allegiant Travel Co.** declined after a damaging report on CBS's 60 Minutes which hurt public relations and investor sentiment. In addition, rising fuel prices and intense pricing competition have put pressure on the entire airline sector. Allegiant continues to work through the transition of its aircraft fleet from the MD-80 to the A320. The transition should be complete by the end of 2018, simplifying operations and allowing management to focus on profitable growth.
- Shares of networking and communications company **CommScope Holding Co., Inc.** declined after the firm shared a disappointing full-year outlook with investors.
- Shares of insurer **Reinsurance Group of America, Inc.** declined, a trend experienced by the industry as a whole during the quarter.

(closed to new investors)

New Positions

- We have followed airline operator **Alaska Air Group, Inc.** for a long time and believe current prices represented a good entry point. While the entire airline sector has come under pressure from rising fuel prices, higher wage rates, and intense pricing competition, Alaska Air is experiencing unusually difficult short-term pressures, which we believe should normalize in the longer term. The airline is still working through its merger with Virgin America and should begin to see the benefits over the next few years.
- Regional bank **Cadence Bancorp. (CIA)** is the acquiring bank of Georgia-based State Bank. Cadence is led by a very experienced management team and is supported by a highly accomplished board of directors. We believe Cadence is well-positioned to benefit from continued banking consolidation as both a near-term acquirer and a potential future seller.
- Shares of medical liability insurance company **ProAssurance Corp.** sold off during the quarter providing an attractive opportunity. The company missed earnings expectations in the quarter as reserve releases were lower than usual. Management was cautious with releasing reserves due to recent large liability verdicts. The company continues to be run with significant excess capital and high-quality underwriting.
- Specialty chemical products manufacturer **RPM International, Inc.** is a leading producer of small project paints and stains, as well as commercial coatings and sealants products. Brands such

as Rust-Oleum small project paints and DAP caulk and sealants are leaders in their categories. Although the company's revenue has grown steadily through a combination of organic growth and an active bolt-on acquisition program, we believe that RPM has not done enough to integrate these acquired businesses effectively and has considerable room to expand margins over the next five years.

- Regional bank **Sterling Bancorp** is a high-quality commercial bank held in other Diamond Hill strategies. In October 2017, Sterling completed its acquisition of Astoria Financial, which nearly doubled the size of the bank. Investors remain skeptical of Sterling's ability to extract the targeted cost savings from the transaction. After following Sterling for years and watching them execute on similar transactions in the past, we are confident that Sterling will successfully integrate Astoria.

Eliminated Positions

- We eliminated our position in consumer products manufacturer **Edgewell Personal Care Co.** due to deteriorating fundamentals in the shave care business. Over the past year, Edgewell has continued to suffer due to pricing actions enacted by Gillette in response to the popularity of Dollar Shave Club and Harry's.
- We eliminated packaged foods manufacturer **TreeHouse Foods, Inc.** after the company reported another quarter of very weak results and deteriorating fundamentals.

Diamond Hill Small-Mid Cap Strategy

As of June 30, 2018

(closed to new investors)

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2005

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	2Q18
SMALL-MID CAP COMPOSITE							
Gross of Fees	10.21	11.65	11.76	8.94	7.62	2.14	3.09
Net of Fees	9.41	10.84	10.98	8.17	6.84	1.77	2.92
BENCHMARKS							
Russell 2500 Index	9.19	10.74	12.29	10.30	16.24	5.46	5.71
Russell 2500 Value Index	8.18	10.10	10.78	9.76	11.49	3.00	5.80

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

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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 (Gross of Fees)	Dispersion (Gross of Fees)	Small-Mid Cap Composite	Russell 2500 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.

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. GIPS is a trademark of CFA Institute. CFA Institute has not been involved in the preparation or review of this report/advertisement.

**Global Investment
Performance Standards**

The Composite increased 2.52%, net of fees, compared to a 2.82% increase in the Russell Midcap Index and a 2.41% increase in the Russell Midcap Value Index.

The Composite's holdings in the real estate, consumer discretionary, health care, and utilities sectors were the largest contributors to absolute return. Positions in the industrials and financials sectors were slight detractors from return.

The Composite's underperformance relative to the Russell Midcap Index was primarily driven by a combination of security selection and an underweight position in the energy sector. A significant overweight allocation to the financials sector detracted from relative return, partially offset by favorable security selection within the sector. Security selection in the information technology sector also detracted modestly from relative return. Strong security selection in the health care and utilities sectors contributed to relative return.

Best Performers

- Shares of medical device manufacturer **Boston Scientific Corp.** rose on rumors of an acquisition by Stryker that did not materialize. Standalone performance continues to be excellent across segments, and we believe balance sheet flexibility will improve going forward as the company moves past mesh litigation settlements.
- Utility provider **UGI Corp.** reported good quarterly results and raised its guidance for the full year. On a year-over-year basis, results were aided by colder weather; however, the slightly warmer than longer-term average temperatures makes current year earnings reflective of normalized earnings power. In addition, the tax law changes passed in late 2017 are having a positive impact, and the company continues to explore natural gas pipeline opportunities in its service territories, including delivering gas from the Marcellus shale, which would add to its asset base.
- Shares of oil and gas exploration and production company **Cimarex Energy Co.** increased reflecting the improving outlook for oil prices, as well as a partial reversal of excessive concern around widening price differentials in the company's core assets. We believe the widely-discussed infrastructure bottlenecks in the Permian will be a 12 to 18-month event and that Cimarex is well-positioned to continue executing on development projects. Price realizations should converge to historical relationships by 2020.

PORTFOLIO MANAGEMENT



Chris Welch, CFA
Portfolio Manager



Chris Bingaman, CFA
Asst. Portfolio Manager



Jenny Hubbard, CFA
Asst. Portfolio Manager

- Shares of real estate investment trust **CubeSmart** benefitted from the general REIT rally in the second quarter as long-term interest rates fell, several sectors saw fundamentals stabilize, and a few merger and acquisition (M&A) deals highlighted the discount between public and private real estate values. CubeSmart in particular benefitted from still-solid storage fundamentals despite heavy development deliveries and the expectation for improving fundamentals in future years as development slows.
- Casino operator **Red Rock Resorts, Inc. (CIA)** rebounded strongly in the second quarter after reporting solid results driven by investment in a new slot system that enhanced customer engagement. The result was a 6% increase in gaming revenue and incremental margins above the typical range. The company is delivering on schedule with its recent renovations of Palace Station and The Palms.

Worst Performers

- Global automotive supplier **BorgWarner, Inc.** underperformed as the risk of new automotive tariffs and higher interest rates could put pressure on auto sales in the coming years as vehicles become more expensive.
- Shares of networking and communications company **CommScope Holding Co., Inc.** declined after the firm shared a disappointing full-year outlook with investors.
- Cosmetics company **Coty, Inc. (CIA)** underperformed after the company reported weak revenue growth, disappointing investors who expected to see stronger revenue trends in response to Coty's efforts to recast brands acquired from P&G. However, lower operating costs indicated that Coty is making progress toward its goals to streamline costs for the acquired P&G brands. The current stock price appears to discount many of these challenges, insider ownership remains very high, and management's incentives are well-aligned with shareholders.
- Shares of rental car company **Avis Budget Group, Inc.** declined despite improved first quarter results that exceeded consensus analyst expectations and stronger used car prices, which should be a positive for Avis. However, the potential negative impacts from signs of weaker rental car pricing in June, tariff threats on new car imports, and a stronger dollar weighed heavily on the stock price.

- Brewing company **Molson Coors Brewing Co. (CI B)** shares declined reflecting fears of a slowing domestic beer market and after issuing quarterly earnings below consensus expectations.

New Positions

- We have followed airline operator **Alaska Air Group, Inc.** for a long time and believe current prices represented a good entry point. While the entire airline sector has come under pressure from rising fuel prices, higher wage rates, and intense pricing competition, Alaska Air is experiencing unusually difficult short-term pressures, which we believe should normalize in the longer term. The airline is still working through its merger with Virgin America and should begin to see the benefits over the next few years.
- Despite a positive first quarter earnings report, life insurance and annuity provider **Brighthouse Financial, Inc.** shares sold off during the quarter providing an attractive investment opportunity. We believe the selloff was due to a combination of short-term investor concerns – a sharp negative turn in sentiment on life insurers, technical pressure from Metlife’s debt exchange for its stake in Brighthouse, and pessimistic market views on variable annuity businesses.

- Specialty chemical products manufacturer **RPM International, Inc.** is a leading producer of small project paints and stains, as well as commercial coatings and sealants products. Brands such as Rust-Oleum small project paints and DAP caulk and sealants are leaders in their categories. Although the company’s revenue has grown steadily through a combination of organic growth and an active bolt-on acquisition program, we believe that RPM has not done enough to integrate these acquired businesses effectively and has considerable room to expand margins over the next five years.

Eliminated Positions

- We eliminated our position in consumer products manufacturer **Edgewell Personal Care Co.** due to deteriorating fundamentals in the shave care business. Over the past year, Edgewell has continued to suffer due to pricing actions enacted by Gillette in response to the popularity of Dollar Shave Club and Harry’s.

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2013

	SINCE INCEPTION	3-YR	1-YR	YTD	2Q18
MID CAP COMPOSITE					
Gross of Fees	9.46	9.50	8.62	1.96	2.68
Net of Fees	8.77	8.82	7.96	1.64	2.52
BENCHMARKS					
Russell Midcap Index	9.83	9.58	12.33	2.35	2.82
Russell Midcap Value Index	9.16	8.80	7.60	-0.16	2.41

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

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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. GIPS is a trademark of CFA Institute. CFA Institute has not been involved in the preparation or review of this report/advertisement.

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 ¹	9.53%	10.36%	10.33%
2016	19.4B	5 or fewer	58.8M	NA ¹	10.87	11.55	11.30
2015	16.8B	5 or fewer	18.6M	NA ¹	NA ²	NA ²	NA ²
2014	15.7B	5 or fewer	16.3M	NA ¹	NA ²	NA ²	NA ²

¹ NA = Not Applicable

² Statistics are not presented because 36 monthly returns are not available.

This composite was created in December 2013.

The Composite increased 1.07%, net of fees, compared to a 3.57% increase in the Russell 1000 Index and a 1.18% increase in the Russell 1000 Value Index.

The Composite's holdings in the information technology, energy, consumer discretionary, and health care sectors were the largest contributors to absolute return, while holdings in the financials and consumer staples sectors were the primary detractors.

The Composite's underperformance relative to the Russell 1000 Index was primarily driven by a combination of overweight allocations to the financials and consumer staples sectors as well as unfavorable security selection within those sectors. Security selection in the consumer discretionary sector also detracted from relative return. Favorable security selection in the information technology and energy sectors, as well as a combination of security selection and an underweight allocation to the industrials sector, contributed modestly to relative return.

Best Performers

- Oil and gas exploration and production company **Devon Energy Corp.** outperformed, reflecting the improving outlook for oil prices as well as the announcement of a sizeable share repurchase program. Devon announced the sale of its midstream assets and plans to use the proceeds to fund a \$4 billion share buyback.
- Shares of discount apparel retailer **TJX Cos., Inc.** rose as the company continued to execute well. Core Marmaxx continues to outperform and take share from struggling department store retailers in the U.S., and store traffic and comparable sales are healthy across all businesses. New store opportunities remain robust both domestically and abroad at a time when many peers are being forced to close doors. We believe TJMaxx is very well-positioned competitively and fundamentally, and we expect the company to continue to outperform peers and grow its lead in the off-price space.
- Shares of social media company **Facebook, Inc. (CIA)** rose as the company posted stronger than expected first quarter results driven by its online advertising business. Its management team has acknowledged data privacy issues on its platform and has taken several steps to restore trust amongst its user base. We expect Facebook to retain its attractive network economics and manage user privacy concerns well without impairing the value of the business over the long term.

PORTFOLIO MANAGEMENT



Chuck Bath, CFA
Portfolio Manager



Austin Hawley, CFA
Portfolio Manager



Chris Welch, CFA
Asst. Portfolio Manager

- Shares of consumer electronics manufacturer **Apple, Inc.** increased as the company reported strong quarterly results, and sales of its smartphones, services, and other products continued to grow strongly.
- Diversified media and entertainment company **Twenty-First Century Fox, Inc. (CIB)** outperformed as Disney and Comcast engaged in a bidding war for the Fox assets.

Worst Performers

- Shares of tobacco products manufacturer **Philip Morris International, Inc.** declined after reporting slowing sales growth in Japan for their iQOS product. iQOS is a reduced risk product developed by Philip Morris using a proprietary heat-not-burn technology.
- Global automotive supplier **BorgWarner, Inc.** underperformed as the risk of new automotive tariffs and higher interest rates could put pressure on auto sales in the coming years as vehicles become more expensive.
- Shares of insurance company **Brighthouse Financial, Inc.** declined despite a positive first quarter earnings report. We believe the selloff was due to a combination of short-term investor concerns – a sharp negative turn in sentiment on life insurers, technical pressure from Metlife's debt exchange for its stake in Brighthouse, and pessimistic market views on variable annuity businesses.
- Banking and financial services company **Morgan Stanley** declined amid concerns around capital return ability, which should abate now that the Federal Reserve's annual Comprehensive Capital Analysis and Review (CCAR) results have been released. Headlines around global macro-economic and trade-related uncertainty continue to drive negative sentiment for investment banks and other financial stocks. Core wealth management fundamentals continue to be strong as management executes on its initiatives to decrease volatility in results and earn consistent, high returns on tangible equity.

- Cosmetics company **Coty, Inc. (CIA)** underperformed after the company reported weak revenue growth, disappointing investors who expected to see stronger revenue trends in response to Coty's efforts to recast brands acquired from P&G. As of quarter-end, the shares were eliminated from the portfolio.

New Positions

- None

Eliminated Positions

- We eliminated our small position in alcoholic beverage manufacturer **Constellation Brands, Inc. (CIA)** to invest in higher conviction ideas.

- We eliminated a small position in cosmetics company **Coty, Inc. (CIA)** electing to allocate funds to higher quality large cap consumer staples companies.
- We eliminated networking and communication technology provider **Juniper Networks, Inc.** to redeploy the capital into more attractive opportunities.

Diamond Hill Large Cap Strategy

As of June 30, 2018

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: June 30, 2001

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	2Q18
LARGE CAP COMPOSITE							
Gross of Fees	9.55	9.89	11.93	9.94	7.51	-2.44	1.19
Net of Fees	8.94	9.32	11.35	9.40	6.98	-2.69	1.07
BENCHMARKS							
Russell 1000 Index	7.18	10.20	13.37	11.64	14.54	2.85	3.57
Russell 1000 Value Index	6.93	8.49	10.34	8.26	6.77	-1.69	1.18

CALENDAR YEAR RETURNS (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
LARGE CAP COMPOSITE										
Gross of Fees	-33.92	31.49	10.61	3.60	13.35	37.79	11.60	-0.16	15.24	21.10
Net of Fees	-34.29	30.79	10.00	3.11	12.79	37.06	10.99	-0.72	14.71	20.51
BENCHMARKS										
Russell 1000 Index	-37.60	28.43	16.10	1.50	16.42	33.11	13.24	0.92	12.05	21.69
Russell 1000 Value Index	-36.85	19.69	15.51	0.39	17.51	32.53	13.45	-3.83	17.34	13.66

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AS OF YEAR-END	DHCM	LARGE CAP COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management (Dispersion (Gross of Fees))	Large Cap Composite	Russell 1000 Index	Russell 1000 Value Index
2017	\$22.3B	196	\$9.1B	0.12%	11.36%	9.97%	10.20%
2016	19.4B	185	7.1B	0.28	11.91	10.69	10.77
2015	16.8B	180	5.8B	0.30	11.83	10.48	10.68
2014	15.7B	155	5.8B	0.10	9.53	9.12	9.20
2013	12.2B	132	4.2B	0.24	12.48	12.26	12.70
2012	9.4B	135	3.7B	0.24	14.42	15.41	15.51
2011	8.7B	129	3.5B	0.21	18.88	18.95	20.69
2010	8.6B	123	3.2B	0.22	NA	NA	NA
2009	6.3B	106	1.5B	0.64	NA	NA	NA
2008	4.5B	108	792.5M	0.86	NA	NA	NA

NA = Not applicable

This composite was created in October 2013.

Global Investment Performance Standards

The Composite increased 1.70%, net of fees, compared to a 3.57% increase in the Russell 1000 Index and a 1.18% increase in the Russell 1000 Value Index.

The Composite's holdings in the information technology sector, followed by positions in the health care, consumer discretionary, and energy sectors were the primary contributors to absolute return, while holdings in the consumer staples and financials sectors detracted from return.

The Composite's underperformance relative to the Russell 1000 Index was driven by a combination of security selection and an overweight allocation to the consumer staples sector, as well as a large overweight allocation to the financial sector. Security selection in the consumer discretionary sector also detracted from relative return. Favorable security selection in the information technology sector was the largest contributor to relative return.

Best Performers

- Shares of discount apparel retailer **TJX Cos., Inc.** rose as the company continued to execute well. Core Marmaxx continues to outperform and take share from struggling department store retailers in the U.S., and store traffic and comparable sales are healthy across all businesses. New store opportunities remain robust both domestically and abroad at a time when many peers are being forced to close doors. We believe TJMaxx is very well-positioned competitively and fundamentally, and we expect the company to continue to outperform peers and grow its lead in the off-price space.
- Shares of consumer electronics manufacturer **Apple, Inc.** increased as the company reported strong quarterly results, and sales of its smartphones, services, and other products continued to grow strongly.
- Shares of software provider **Microsoft Corp.** rose after the company reported quarterly earnings that included strong revenue growth and operating margin expansion. This combination produced earnings that were meaningfully above consensus expectations.
- Shares of media and technology company **Alphabet, Inc. (Cl A)** rose after investors digested short-term concerns of higher expense growth following the company's first quarter earnings report. Alphabet's Google segment, which consists of the company's internet advertising, Google cloud platform, and hardware initiatives, continued to drive revenue growth at an attractive margin profile.

PORTFOLIO MANAGEMENT



Chuck Bath, CFA
Portfolio Manager



Austin Hawley, CFA
Portfolio Manager



Chris Welch, CFA
Asst. Portfolio Manager

- Consumer goods manufacturer **V.F. Corp.** outperformed after the company's quarterly results reflected stabilizing trends in brands with more exposure to the North American wholesale channel, such as The North Face and Wrangler, and very strong growth across all brands in international markets. The company continues to reposition its portfolio into higher quality brands with strong distribution and profit enhancement potential and is making significant progress toward its goal of shifting more sales from the lower quality/lower margin wholesale channel into the higher margin direct to consumer (DTC) channel.

Worst Performers

- Shares of tobacco products manufacturer **Philip Morris International, Inc.** declined after reporting slowing sales growth in Japan for their iQOS product. iQOS is a reduced risk product developed by Philip Morris using a proprietary heat-not-burn technology.
- Global automotive supplier **BorgWarner, Inc.** underperformed as the risk of new automotive tariffs and higher interest rates could put pressure on auto sales in the coming years as vehicles become more expensive.
- Multi-industry holding company **Berkshire Hathaway, Inc. (Cl B)** continued to produce solid fundamental results and steadily increase its intrinsic value. However, a lack of attractive investment opportunities has led to a growing stockpile of cash, which the market has heavily discounted in value. In addition, sentiment towards property and casualty insurers waned in the quarter as investors speculated about peak pricing for auto insurance and commercial/reinsurance pricing disappointed.
- Life insurance company **MetLife, Inc.** declined in-line with other life insurers despite little incremental company-specific news.
- Shares of banking and financial services company **JP Morgan Chase & Co.** were down modestly during the quarter. The banking industry lagged the broader market as investors focused on the flattening yield curve along with the potential impacts of increased barriers to international trade.

New Positions

- Oil and gas exploration and production company **Devon Energy Corp.**'s management recently articulated a more disciplined capital investment strategy along with a potential sizeable divestiture program that will help focus the business around attractive core assets. We believe Devon holds an attractive scalable acreage position in both the Delaware Basin as well as the Anadarko Basin that should drive meaningful return on invested capital improvement.
- Social media company **Facebook, Inc. (C1A)** is the largest social network in the world. The company also owns other large user base properties (Instagram, WhatsApp, and Messenger), all of which have more than a billion users and 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 consumer privacy regulation the company might face due to issues uncovered on its platform earlier this year. We expect these issues will be resolved without impairing the value of the business.

Eliminated Positions

- We sold our position in consumer electronics manufacturer **Apple, Inc.** to make room for other investments.
- We exited our investment in oil and gas exploration and production company **Cimarex Energy Co.** to fund an investment in Devon Energy. We continue to like the investment opportunity in Cimarex, but the concentrated nature of Cimarex's strategy led us to favor Devon Energy.

Diamond Hill Large Cap Concentrated Strategy

As of June 30, 2018

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2011

	SINCE INCEPTION	5-YR	3-YR	1-YR	YTD	2Q18
LARGE CAP CONCENTRATED COMPOSITE						
Gross of Fees	14.15	12.19	10.73	9.84	-1.04	1.81
Net of Fees	13.77	11.86	10.36	9.24	-1.29	1.70
BENCHMARKS						
Russell 1000 Index	15.02	13.37	11.64	14.54	2.85	3.57
Russell 1000 Value Index	13.12	10.34	8.26	6.77	-1.69	1.18

CALENDAR YEAR RETURNS (%)

	2012	2013	2014	2015	2016	2017
LARGE CAP CONCENTRATED COMPOSITE						
Gross of Fees	10.00	38.75	10.70	-0.59	19.17	19.28
Net of Fees	9.74	37.22	10.63	-0.46	19.16	18.57
BENCHMARKS						
Russell 1000 Index	16.42	33.11	13.24	0.92	12.05	21.69
Russell 1000 Value Index	17.51	32.53	13.45	-3.83	17.34	13.66

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AS OF YEAR-END	DHCM	LARGE CAP CONCENTRATED COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management (Dispersion of Gross of Fees)	Large Cap Concentrated Composite	Russell 1000 Index	Russell 1000 Value Index
2017	\$22.3B	5 or fewer	\$3.4M	NA ¹	12.41%	9.97%	10.20%
2016	19.4B	5 or fewer	2.9M	NA ¹	12.77	10.69	10.77
2015	16.8B	5 or fewer	418.9M	NA ¹	12.07	10.48	10.68
2014	15.7B	5 or fewer	422.6M	NA ¹	9.29	9.12	9.20
2013	12.2B	5 or fewer	382.3M	NA ¹	NA ²	NA ²	NA ²
2012	9.4B	5 or fewer	275.9M	NA ¹	NA ²	NA ²	NA ²

¹ NA = Not applicable

² Statistics are not presented because 36 monthly returns are not available.

This composite was created in December 2011.

Global Investment Performance Standards

The Composite increased 2.10%, net of fees, compared to a 3.89% increase in the Russell 3000 Index and a 1.71% increase in the Russell 3000 Value Index.

The Composite's holdings in the consumer discretionary, information technology, and industrials sectors were the primary contributors to absolute return, while holdings in the financials and consumer staples sectors detracted from absolute return.

The Composite's underperformance relative to the Russell 3000 Index was primarily driven by a combination of an overweight allocation to the financials and consumer staples sectors as well as unfavorable security selection within those sectors. Security selection in the information technology sector was the largest contributor to relative return, partially offset by an underweight allocation to the sector. Security selection in the industrials sector also contributed to relative return.

Best Performers

- Diversified media and entertainment company **Twenty-First Century Fox, Inc. (CI B)** outperformed as Disney and Comcast engaged in a bidding war for the Fox assets.
- Ski resort owner and operator **Vail Resorts, Inc.** announced strong early season pass sales for 2019, demonstrating competitor passes are not eroding its competitive position. The company delivered solid results for the quarter as conditions improved and announced acquisitions that bolster Vail's presence in New England and the Pacific NW regions.
- Shares of social media company **Facebook, Inc. (CI A)** rose as the company posted stronger than expected first quarter results driven by its online advertising business. Its management team has acknowledged data privacy issues on its platform and has taken several steps to restore trust amongst its user base. We expect Facebook to retain its attractive network economics and manage user privacy concerns well without impairing the value of the business over the long term.
- Shares of food products manufacturer **Post Holdings, Inc.** rallied after the company released a strong quarterly earnings report.
- Freight transportation management company **Hub Group, Inc. (CI A)** outperformed as intermodal pricing improved meaningfully due to strong demand as well as supply constraints in the competing truckload market. We believe the improved contractual pricing should lead to strong margin improvement beginning in the second half of 2018.

PORTFOLIO MANAGEMENT



Austin Hawley, CFA
Portfolio Manager



Rick Snowdon, CFA
Portfolio Manager

Worst Performers

- Shares of tobacco products manufacturer **Philip Morris International, Inc.** declined after reporting slowing sales growth in Japan for their iQOS product. iQOS is a reduced risk product developed by Philip Morris using a proprietary heat-not-burn technology.
- Shares of insurance company **Brighthouse Financial, Inc.** declined despite a positive first quarter earnings report. We believe the selloff was due to a combination of short-term investor concerns – a sharp negative turn in sentiment on life insurers, technical pressure from Metlife's debt exchange for its stake in Brighthouse, and pessimistic market views on variable annuity businesses.
- Brewing company **Molson Coors Brewing Co. (CI B)** shares declined reflecting fears of a slowing domestic beer market and after issuing quarterly earnings below consensus expectations.
- Global automotive supplier **BorgWarner, Inc.** underperformed as the risk of new automotive tariffs and higher interest rates could put pressure on auto sales in the coming years as vehicles become more expensive.
- Shares of media and communications company **Liberty Global PLC (CI A)** declined after the company announced the sale of its German assets and most of its Central European assets to Vodafone. While the exit highlights the delta between public and private valuations of cable, the remaining businesses operate in challenged markets and are growing at a slower pace. There is also some uncertainty around regulatory approval and how long it will take before Liberty receives proceeds from the sale.

New Positions

- Shares of medical liability insurance company **ProAssurance Corp.** sold off during the quarter providing an attractive opportunity. The company missed earnings expectations in the quarter as reserve releases were lower than usual. Management was cautious with releasing reserves due to recent large liability verdicts. The company continues to be run with significant excess capital and high-quality underwriting.

Eliminated Positions

- We sold our position in consumer electronics manufacturer **Apple, Inc.** to make room for other investments.
- We swapped financial services company **Credit Suisse Group AG** for a more attractive opportunity.

Diamond Hill All Cap Select Strategy

As of June 30, 2018

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: June 30, 2000

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	2Q18
ALL CAP SELECT COMPOSITE							
Gross of Fees	10.93	10.51	12.47	8.02	14.85	1.25	2.26
Net of Fees	10.19	9.86	11.87	7.41	14.21	0.95	2.10
BENCHMARKS							
Russell 3000 Index	5.97	10.23	13.29	11.58	14.78	3.22	3.89
Russell 3000 Value Index	7.32	8.60	10.40	8.48	7.25	-1.16	1.71

CALENDAR YEAR RETURNS (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
ALL CAP SELECT COMPOSITE										
Gross of Fees	-32.90	34.83	11.51	-0.58	12.70	45.86	12.60	-0.48	10.84	21.26
Net of Fees	-33.39	33.89	10.74	-1.21	12.00	45.11	12.07	-1.01	10.22	20.60
BENCHMARKS										
Russell 3000 Index	-37.31	28.34	16.93	1.03	16.42	33.55	12.56	0.48	12.74	21.13
Russell 3000 Value Index	-36.25	19.76	16.23	-0.10	17.55	32.69	12.70	-4.13	18.40	13.19

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AS OF YEAR-END	DHCM	ALL CAP SELECT COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management (Gross of Fees)	Dispersion	All Cap Select Composite	Russell 3000 Index
2017	\$22.3B	12	\$332.3M	0.16%	11.85%	10.09%	10.33%
2016	19.4B	13	324.6M	0.28	12.04	10.88	10.97
2015	16.8B	13	466.5M	0.16	11.66	10.58	10.74
2014	15.7B	13	374.9M	0.07	10.56	9.29	9.39
2013	12.2B	14	277.8M	0.24	13.39	12.53	12.90
2012	9.4B	18	227.2M	0.16	14.48	15.73	15.81
2011	8.7B	26	284.9M	0.42	18.81	19.35	21.04
2010	8.6B	28	189.0M	0.48	NA	NA	NA
2009	6.3B	29	155.0M	0.97	NA	NA	NA
2008	4.5B	35	83.3M	0.82	NA	NA	NA

NA = Not Applicable

This composite was created in October 2013.

Global Investment Performance Standards

The Composite increased 1.36%, net of fees, compared to a 0.54% increase in the Morningstar Global Markets Index.

The Composite's holdings in the consumer discretionary, information technology, and industrials sectors were the primary contributors to absolute return, while positions in the financials sector were the largest detractors.

The Composite's outperformance relative to the Index was primarily driven by security selection in the information technology, industrials, and consumer discretionary sectors. An overweight allocation to the financials sector and an underweight allocation to the energy sector detracted from relative return.

During the second quarter, developed markets generally performed well in local currencies, likely reflecting continued expectations for broad-based global growth. Several emerging and Asian markets experienced weakness, however, as investors considered the impact that recent U.S. dollar strength, ongoing trade tensions, and geopolitical risks might have on specific geographies. Although nearly 60% of the portfolio is allocated to U.S. holdings, this relatively large weight is a reflection of where we are finding more attractive individual investment opportunities rather than a view on the near-term direction of global markets or economies. We continue to maintain relatively low direct exposure to emerging markets, although many of the companies held in the portfolio are global in nature and have material economic exposure to emerging economies.

Best Performers

- Diversified media and entertainment company **Twenty-First Century Fox, Inc. (CI B)** outperformed as Disney and Comcast engaged in a bidding war for the Fox assets.
- Ski resort owner and operator **Vail Resorts, Inc.** announced strong early season pass sales for 2019, demonstrating competitor passes are not eroding its competitive position. The company delivered solid results for the quarter as conditions improved and announced acquisitions that bolster Vail's presence in New England and the Pacific NW regions.
- Shares of social media company **Facebook, Inc. (CI A)** rose as the company posted stronger than expected first quarter results driven by its online advertising business. Its management team has acknowledged data privacy issues on its platform and has

PORTFOLIO MANAGEMENT



Grady Burkett, CFA
Portfolio Manager



Rick Snowden, CFA
Portfolio Manager

taken several steps to restore trust amongst its user base. We expect Facebook to retain its attractive network economics and manage user privacy concerns well without impairing the value of the business over the long term.

- Freight transportation management company **Hub Group, Inc. (CI A)** outperformed as intermodal pricing improved meaningfully due to strong demand as well as supply constraints in the competing truckload market. We believe the improved contractual pricing should lead to strong margin improvement beginning in the second half of 2018.
- Kitchen products manufacturer **Howden Joinery Group PLC** outperformed after the company released a good trading update in early May, with same-depot revenue increasing 9%. The company is executing very well in an uncertain U.K. macro environment, outperforming peers and gaining significant market share in the U.K. kitchen market.

Worst Performers

- Shares of tobacco products manufacturer **Philip Morris International, Inc.** declined after reporting slowing sales growth in Japan for their iQOS product. iQOS is a reduced risk product developed by Philip Morris using a proprietary heat-not-burn technology.
- Shares of insurance company **Brighthouse Financial, Inc.** declined despite a positive first quarter earnings report. We believe the selloff was due to a combination of short-term investor concerns – a sharp negative turn in sentiment on life insurers, technical pressure from Metlife's debt exchange for its stake in Brighthouse, and pessimistic market views on variable annuity businesses.
- Shares of media and communications company **Liberty Global PLC (CI A)** declined after the company announced the sale of its German assets and most of its Central European assets to Vodafone. While the exit highlights the delta between public and private valuations of cable, the remaining businesses operate in challenged markets and are growing at a slower pace. There is also some uncertainty around regulatory approval and how long it will take before Liberty receives proceeds from the sale.

- Global automotive supplier **BorgWarner, Inc.** underperformed as the risk of new automotive tariffs and higher interest rates could put pressure on auto sales in the coming years as vehicles become more expensive. Shares of media and communications company.
- Securities exchange operator **Euronext N.V.** underperformed as political uncertainty in Europe drove European stocks lower and fueled debate about the negative impact on trading volumes at Euronext. However, Euronext reported solid fundamental results for the quarter with strength in cash equities revenue, as well as market data and indices revenue, notable bright spots. Market share remains over 60%.

New Positions

- Electronics and communications company **Samsung Electronics Co. Ltd.** continues to benefit from strong memory demand and relatively tight supply, and the firm's operating profit is currently

at a record level. Capital allocation has improved in recent years, and the company is now returning about half its free cash flow to shareholders via dividends and share repurchases. While we believe operating profits may be near a cyclical peak, shares trade at a substantial discount to our estimate of intrinsic value, which incorporates what we believe are mid-cycle assumptions. Additionally, we believe Samsung is well-positioned to weather the next industry downturn: the company is the dominant supplier within the increasingly consolidated memory industry and has invested in leading edge technologies more aggressively than its competitors, memory demand is poised for long-term secular growth, and Samsung maintains a substantial net cash position on its balance sheet.

Eliminated Positions

- We sold our position in consumer electronics manufacturer **Apple, Inc.** to make room for other investments.

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2013

	SINCE INCEPTION	3-YR	1-YR	YTD	2Q18
SMALL CAP COMPOSITE					
Gross of Fees	8.61	9.28	15.73	0.50	1.53
Net of Fees	8.53	9.16	15.35	0.16	1.36
BENCHMARKS					
Morningstar Global Markets Index	7.09	8.27	10.89	-0.36	0.54

CALENDAR YEAR RETURNS (%)

	2014	2015	2016	2017
SMALL CAP COMPOSITE				
Gross of Fees	3.69	-4.58	11.42	30.84
Net of Fees	3.69	-4.58	11.42	30.84
BENCHMARKS				
Morningstar Global Markets Index	4.00	-2.04	8.22	23.87

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AS OF YEAR-END	GLOBAL COMPOSITE				3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)	
	DHCM Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Global Composite	Morningstar Global Markets Index
2017	\$22.3B	5 or fewer	\$2.2M	NA	11.56%	10.26%
2016	19.4B	5 or fewer	1.7M	NA	11.66	10.98
2015	16.8B	5 or fewer	1.5M	NA	NA	NA
2014	15.7B	5 or fewer	1.6M	NA	NA	NA

NA = Not applicable

This composite was created in January 2018.

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