

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.

*(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.