

(closed to new investors)

The Composite increased 1.79%, net of fees, compared to a 3.58% increase in the Russell 2000 Index and a 1.60% increase in the Russell 2000 Value Index.

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

The Composite's underperformance relative to the Index was primarily driven by security selection in the consumer discretionary sector. Security selection and an underweight position in the information technology sector also detracted from relative return. Security selection in the health care sector was a large contributor to relative return; however, it was partially offset by a significant underweight allocation to the sector. The double-digit cash position also detracted from relative return.

Best Performers

- Property and casualty insurance company **Navigators Group, Inc.** outperformed after announcing that it would be acquired by Hartford Financial Services Group, Inc., which we believe is a good outcome for shareholders.
- Shares of insurance company **ProAssurance Corp.** rallied amid strong quarterly results. Management commentary on the business was also markedly positive compared to the prior quarter.
- Shares of entertainment company **Live Nation Entertainment, Inc.** increased after reporting increased revenues and adjusted operating income. Meaningfully, the growth has been balanced as concerts, sponsorship, and ticketing all experienced strong growth.
- Shares of hospital owner and operator **LifePoint Health, Inc.** rose after the company was acquired by RCCH HealthCare Partners, which is owned by the private equity segment of Apollo Global Management. The transaction is expected to close during the fourth quarter of 2018.
- Rental and leasing services company **Aaron's, Inc.** outperformed after reporting strong Progressive Leasing revenues and improved credit metrics. Trends have stabilized in the Aaron's stores, with same store sales down marginally in the quarter but total revenues slightly positive. Management now expects same store sales to turn positive in the fourth quarter after showing negative trends for several years.

PORTFOLIO MANAGEMENT



Tom Schindler, CFA
Portfolio Manager



Aaron Monroe, CFA
Asst. Portfolio Manager



Chris Welch, CFA
Asst. Portfolio Manager

Worst Performers

- Shares of casino operator **Red Rock Resorts, Inc. (CIA)** declined amid concerns regarding weakness in Las Vegas Strip room pricing and visitation during the latter half of the year. Additionally, large renovations at Palace Station and The Palms are closer to the Las Vegas Strip and are more susceptible to this weakness. Overall, the near-term volatility does not change our long-term thesis on the company.
- Shares of **Bank OZK**, a regional bank based in Arkansas, declined as loan growth was lower than expected due to a slowing commercial real estate market and accelerating repayments of existing loans. Fears over rising deposit costs have also weighed on shares amid concerns of net interest margin pressure.
- Shares of **BankUnited, Inc.**, a regional bank based in Florida, declined after the appointment of a new board member and the resignation of the board chairman led some to conclude that the probability of the franchise being sold is lower than expected. Uncertainty about the path of earnings through 2019 due to the expiration of FDIC loss share also caused investor caution.
- Underperformance of oil and gas exploration and production company **Cimarex Energy Co.** likely reflects concern about widening price differentials in 2019. We believe the widely-discussed infrastructure bottlenecks in the Permian Basin will be a 12- to 18-month event and that Cimarex is well-positioned to continue executing on development projects.
- Freight transportation management company **Hub Group, Inc. (CIA)** underperformed after the company sold its Mode division, which will be dilutive to earnings until the proceeds are re-deployed into M&A targets with a better strategic fit. Additionally, elevated new truck orders and some softening in truck pricing created concerns about the sustainability of the current pricing cycle in trucking and intermodal. We believe the lack of driver availability will constrain trucking capacity, and the pricing environment will allow the company to achieve and maintain higher operating margins.



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New Positions

- We received shares of **WMIH Corp.**, a shell company with a large tax loss balance, when it completed the acquisition of our holding **Nationstar Mortgage Holdings, Inc.** There are no operational changes at Nationstar as it is simply under a new ownership structure.
- We received shares of oil and gas exploration and production company **Riviera Resources, Inc.** in a spin-off from holding Linn Energy, Inc. which was subsequently renamed **Roan Resources, Inc.** Riviera Resources now owns the exploration and production assets that have a more mature, lower decline profile in the Hugoton, East Texas, North Louisiana, Michigan/Illinois, the Uinta Basin, and the Mid-Continent regions. Riviera also owns Blue Mountain Midstream LLC, which is centered in the Merge play in the Anadarko Basin.

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 closed out our position in diversified industrial company **Hillenbrand, Inc.** when the stock price reached our estimate of intrinsic value.
- We sold our shares of property and casualty insurance company **Validus Holdings Ltd.** in an all-cash acquisition by AIG.

Diamond Hill Small Cap Strategy

As of September 30, 2018

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PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2000

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	3Q18
SMALL CAP COMPOSITE							
Gross of Fees	11.93	10.37	8.39	9.93	7.35	3.11	1.99
Net of Fees	11.06	9.51	7.54	9.06	6.51	2.49	1.79
BENCHMARKS							
Russell 2000 Index	8.77	11.11	11.07	17.12	15.24	11.51	3.58
Russell 2000 Value Index	9.42	9.52	9.91	16.12	9.33	7.14	1.60

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 5/31/00–6/30/18. 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 12/31/00–6/30/18. 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. **Past performance is not a guarantee of future results.**

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.

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**