



**DIAMOND
HILL** | CAPITAL
MANAGEMENT

Quarterly Commentary: Equity Composites

December 31, 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

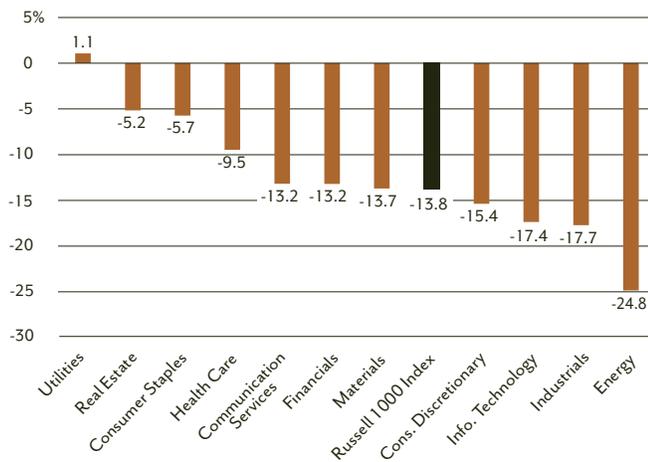
We align our interests with those of our clients through significant personal investment in our strategies.

After a strong 10.5% increase through the first three quarters of 2018, the Russell 1000 Index more than gave back those gains in the fourth quarter, ending the year down 4.8%. The 13.8% fourth quarter decline was the largest since the third quarter of 2011, and the decline from its all-time high in September reached 20%. Concern that the Federal Reserve will go too far in tightening monetary policy, coupled with continued global trade tensions, is causing fear of a potential slowdown in global economic growth.

As these concerns grew, defensive sectors performed better than most others, as might be expected. Utilities was the only sector to post a positive return during the quarter at 1.1%, and although real estate and consumer staples declined in the mid-single digits, that was well ahead of the overall index.

Energy was the worst performing sector during the quarter, down nearly 25%, as oil prices plummeted from \$73 per barrel to \$45. Other cyclical sectors like industrials (-17.7%) and consumer discretionary (-15.4%) also fared poorly, as did information technology (-17.4%), with companies such as Apple giving back much of the gain they saw through the first three quarters of the year.

RUSSELL 1000 INDEX SECTOR RETURNS - 4Q18



Source: FactSet.

In a departure from the first half of the year, large cap stocks outpaced small cap stocks for the second consecutive quarter. The Russell 1000 Index declined 13.8% during the quarter, while the Russell 2000 Index declined over 20% on the potential impact of rising interest rates. Small caps tend to be impacted more negatively than large caps by rising rates, as small caps tend to have higher leverage, and a greater percentage of that debt is based on floating rates. There is also growing fear that small caps may not be as insulated from trade war impacts as previously thought.

Growth stocks gave back some ground to value stocks during the quarter, with the Russell 1000 Growth Index declining 15.9%, approximately 400 basis points behind the Russell 1000 Value Index. This appears to be driven in part by differences in sector weightings between the two indices. The four best-performing sectors in the quarter — utilities, real estate, consumer staples, and health care — are all larger weights in the Value Index than the Growth Index.

After a quieter 2017, volatility re-emerged in 2018, including a notable spike in the fourth quarter. There were 12 days in the fourth quarter that the Russell 1000 Index moved +/- 2%, compared to eight such days in the first three quarters of 2018 (six, two, and zero in the first, second, and third quarters, respectively) and zero days in all of 2017. Not surprisingly, there were twice as many down 2% days in the fourth quarter than up 2% days.

The Russell 1000 Index's 4.8% decline in 2018 was the first negative year since 2008. Health care was the best-performing sector for the year, up 6.1%. The only other positive sectors were utilities (4.6%) and information technology (3.3%). Cyclical sectors including energy (-18.4%), materials (-16.6%), and industrials (-13.5%) were by far the worst performers, impacted by the previously-mentioned concerns around trade tensions and the potential for a global economic slowdown.

Outlook

Corporate tax reform benefitted U.S. companies throughout 2018. Repatriation of cash held overseas ticked up dramatically during the year, and we are seeing that cash being utilized for share repurchases and acquisitions. Lower tax rates also boosted earnings growth. However, the size of the boost will not repeat in

2019, and 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, but for certain companies the impact is large. While it is not affecting how we are positioning the portfolios, we continually assess the impact on a company-by-company basis. Broadly speaking, we do think cooler heads will prevail but we view the future impact on individual companies as very difficult to handicap.

Low interest rates, high corporate profit margins, and steady economic growth with low inflation drove strong equity market returns since the Great Recession. The resulting high valuations made it more challenging for us to find opportunities to add new businesses to the portfolios, but a broad range of businesses are becoming more attractive after the fourth quarter's sell-off in equity markets. Discounts to intrinsic value have widened, and

although we continue to be attracted to higher-quality businesses at this point in the economic cycle, we are incrementally spending more time analyzing cyclical businesses whose valuations seem to more than reflect a near-term recession. As always, we remain focused on assessing risk, which we define as the permanent loss of capital.

Despite the upward path of interest rates and concern that it could push the economy into a recession, most economic indicators continue to show strength and suggest healthy near-term growth. With the fourth quarter's sell-off in equity markets, price/earnings multiples are now lower than historical averages. Decent economic growth and a below-average starting point for price/earnings multiples should support equity returns over the next five years. However, returns could be held back if historically high corporate profit margins and below-average interest rates revert toward long-term averages. Together, these factors suggest to us that high-single digits is a reasonable expectation for equity market returns over the next five years.

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 December 31, 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.

(closed to new investors)

The Composite decreased 16.81%, net of fees, compared to a 20.20% decrease in the Russell 2000 Index and a 18.67% decrease in the Russell 2000 Value Index.

The Composite's holdings in all sectors detracted from absolute return, led by the industrials, financials, and consumer discretionary sectors.

The Composite's outperformance relative to the Russell 2000 Index was primarily driven by security selection and an underweight position in the health care sector. Security selection in the real estate and energy sectors, and an overweight position in the financials sector also contributed to relative return. The Composite's cash position provided downside protection during the market pullback and was a large contributor to relative return. Security selection in the information technology and consumer discretionary sectors were the largest detractors from relative return.

Best Performers

- Infrastructure products and services provider **Arcosa, Inc.** outperformed after the company completed the acquisition of ACG Materials in December. This adds to the company's aggregates and specialty lines of business and should be slightly accretive to 2019 earnings.
- Shares of home infusion services provider **BioScrip, Inc.** rose as the company continued to make progress in its turnaround efforts. Organic revenues were up, and the company reiterated its 2019 earnings target despite not receiving any relief from recent legislation that left some performed services unreimbursed until the Cures Act goes into effect in 2020. The company is also focusing on improving revenue collection times to drive improved cash flow.
- Processed and packaged foods manufacturer **B&G Foods, Inc.** outperformed as the company has been able to take pricing with minimal volume elasticity, which has helped to offset the difficult input cost environment. The company also announced the sale of its Pirate Brands business for a favorable price, using the proceeds from the transaction to pay down debt.
- Shares of reinsurance company **RenaissanceRe Holdings Ltd.** rose despite the lack of material company-specific news. The company's business is generally less exposed to overall market risks and tends to outperform during periods of overall market stress.

TEAM¹



Aaron Monroe, CFA
Portfolio Manager



Chris Welch, CFA
Portfolio Manager

- Specialty chemicals and materials producer **W.R. Grace & Co.** outperformed due to the defensive characteristics of the business, as well as the presence of an activist investor who continues to build a significant stake in the company.

Worst Performers

- Shares of **Bank OZK**, an Arkansas-based regional bank, declined after the company reported disappointing quarterly results that included two credit-related issues which fueled concerns about the health of commercial real estate in general, as well as the future trajectory of credit at the bank. We believe these were isolated events from legacy credits underwritten before the great financial crisis and are not indicative of the quality of the rest of the company's loan portfolio.
- Ski resort owner and operator **Vail Resorts, Inc.** underperformed amid a slowdown in season-pass sales which caused investor concern. We continue to believe that the company's fundamentals remain strong.
- Shares of rental car company **Avis Budget Group, Inc.** declined after reporting quarterly earnings that were generally within the company's guidance but below consensus estimates. The company experienced weakness in its international business, where higher volumes were offset by lower pricing. In 2019, higher interest rates and currency will be headwinds for reported results.
- Underperformance of oil and gas exploration and production company **Cimarex Energy Co.** likely reflects the steep drop in oil prices throughout the quarter. The current outlook for oil prices in 2019 suggests that the broader domestic exploration and production industry will have to substantially slow its drilling activities. We still believe Cimarex holds very attractive assets, which should allow the company to outgrow most of its peers over the next five years.

¹ As of February 1, 2019.

- Shares of casino operator **Red Rock Resorts, Inc. (CIA)** declined amid margin compression related to some opportunistic operating expenditures. These results, coupled with broader economic concerns, led to significant multiple compression across the gaming industry. We remain positive on the long-term prospects for Red Rock's business.

New Positions

- We received shares of infrastructure products and services provider **Arcosa, Inc.** in a spin-off from Trinity Industries. Arcosa has three main business lines in construction, energy, and transportation. At the time of the spin-off, the company had a debt-free balance sheet and \$200 million of cash.
- We started a position in pharmaceutical company **Endo International PLC** based on our belief that investors have misperceived the company's strategy and the durability of its portfolio. The market is concerned over risks including potential opioid liabilities which we believe could be settled for less than what the market is currently embedding into the company's valuation.
- **Century Communities, Inc.** is a homebuilder with notable positions in Denver and Atlanta. It has completed a series of acquisitions over the last several years, diversifying its housing footprint and expanding its position in entry-level homes. We believe the pessimism in the housing market has driven the stock price well below tangible book value.
- **Green Brick Partners, Inc.** is a well-run homebuilder with locations in prime "A" locations in Dallas and Atlanta. Management is long-term oriented with good levels of insider ownership and notably lower levels of leverage than the industry as a whole. While there has been a significant amount of pessimism surrounding the housing market, we believe Green Brick Partners will be able to take advantage of any downturn due to its balance sheet, land locations, and management team.
- **Kelly Services, Inc. (CIA)** is a staffing/workforce solutions company that serves large and mid-sized enterprise employer needs on a global basis. The company has a diverse client base with strength in the K-12 educational staffing, scientific and engineering, and clerical/office worker segments. Although the firm has no significant debt, reported GAAP earnings are volatile since Kelly must mark-to-market its investment in Japanese company Persol Holdings (with whom the company combined its Asian business). The Kelly operations should earn slightly more

(closed to new investors)

than \$2 per share in 2018, making the shares excluding the Persol investment valued at approximately 10 times earnings. In the past two years, the company's focus on more value-added services has led to about a 100-basis point improvement in gross margins.

- We initiated a position in **RenaissanceRe Holdings Ltd.**, a Bermudian reinsurance company with a long track record of value creation and strong underwriting.
- Specialty chemicals and materials producer **W.R. Grace & Co.** is a leading provider of catalysts and additives for both the refining and polyolefin industries. We believe that recent market volatility provided the opportunity to buy a very good business with a solid management team at a discount to its intrinsic value.

Eliminated Positions

- As the share price of property and casualty insurance company **Alleghany Corp.** approached our estimate of intrinsic value, we eliminated the position to add to more favorable opportunities.
- We sold our position in industrial and information technology products distributor **Anixter International, Inc.** to make room for more attractive investments.
- We eliminated our position in oil and gas exploration and production company **Carrizo Oil & Gas, Inc.** and used the funds for more attractive investment opportunities. While the company has attractive acreage positions in both the Eagle Ford and Permian basins, its smaller scale leads to some cost inefficiencies that prove difficult to overcome in declining commodity price environments.
- We eliminated our position in networking and communications company **CommScope Holding Co., Inc.** after the company announced an ill-advised acquisition of Arris International.
- We sold shares of utility company **Fortis, Inc.** and reinvested the proceeds in more attractive investment opportunities.
- We sold our shares of hospital owner and operator **LifePoint Health, Inc.** in an all-cash acquisition by Apollo Global Management.
- We eliminated our position in real estate investment trust **Mid-America Apartment Communities, Inc.** as the share price approached our estimate of intrinsic value.

Diamond Hill Small Cap Strategy

As of December 31, 2018

(closed to new investors)

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2000

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	4Q18
SMALL CAP COMPOSITE							
Gross of Fees	10.63	11.10	2.86	3.66	-14.03	-14.03	-16.62
Net of Fees	9.77	10.23	2.05	2.83	-14.73	-14.73	-16.81
BENCHMARKS							
Russell 2000 Index	7.29	11.97	4.41	7.36	-11.01	-11.01	-20.20
Russell 2000 Value Index	8.04	10.40	3.61	7.37	-12.86	-12.86	-18.67

CALENDAR YEAR RETURNS (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
SMALL CAP COMPOSITE										
Gross of Fees	30.96	24.76	-5.90	14.32	41.64	5.96	-2.45	15.61	12.05	-14.03
Net of Fees	29.93	23.77	-6.63	13.43	40.55	5.17	-3.23	14.71	11.17	-14.73
BENCHMARKS										
Russell 2000 Index	27.17	26.85	-4.18	16.35	38.82	4.89	-4.41	21.31	14.65	-11.01
Russell 2000 Value Index	20.58	24.50	-5.50	18.05	34.52	4.22	-7.47	31.74	7.84	-12.86

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 5/31/00–9/30/18. 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 12/31/00–9/30/18. 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.** 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	SMALL CAP COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management (Gross of Fees)	Dispersion	Small Cap Composite	Russell 2000 Index
2018	\$19.1B	5 or fewer	\$1.0B	NA	12.11%	15.79%	15.76%
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

NA = Not applicable

This composite was created in October 2013.

**Global Investment
Performance Standards**

(closed to new investors)

The Composite decreased 14.72%, net of fees, compared to an 18.49% decrease in the Russell 2500 Index and a 17.12% decrease in the Russell 2500 Value Index.

The Composite's holdings in all sectors detracted from absolute return, led by the financials and industrials sectors. The consumer discretionary, information technology, and energy sectors were also large detractors from absolute return.

The Composite's outperformance relative to the Russell 2500 Index was primarily driven by security selection and an underweight position in the health care sector, as well as the Composite's mid-single digit cash allocation. Security selection in the real estate and energy sectors also contributed to relative return. Security selection in the industrials sector was the largest detractor from relative return.

Best Performers

- Insurance broker **Willis Towers Watson PLC** outperformed after the company reported strong earnings, including better-than-expected organic revenue growth.
- Processed and packaged foods manufacturer **B&G Foods, Inc.** outperformed as the company has been able to take pricing with minimal volume elasticity, which has helped to offset the difficult input cost environment. The company also announced the sale of its Pirate Brands business for a favorable price, using the proceeds from the transaction to pay down debt.
- Shares of reinsurance company **RenaissanceRe Holdings Ltd.** rose despite the lack of material company-specific news. The company's business is generally less exposed to overall market risks and tends to outperform during periods of overall market stress.
- Hospital owner and operator **LifePoint Health, Inc.** outperformed after the company was acquired by Apollo Global Management.
- Real estate investment trust **American Campus Communities, Inc.** benefitted from the risk-off environment, and from generally stable fundamentals in the business. The student housing industry also tends to be reasonably defensive in downturns. We believe the company's combination of steady internal growth and new development should be more attractive in uncertain environments.

TEAM¹



Chris Welch, CFA
Portfolio Manager



Jenny Hubbard, CFA
Asst. Portfolio Manager

Worst Performers

- Underperformance of oil and gas exploration and production company **Cimarex Energy Co.** likely reflects the steep drop in oil prices throughout the quarter. The current outlook for oil prices in 2019 suggests that the broader domestic exploration and production industry will have to substantially slow its drilling activities. We still believe Cimarex holds very attractive assets, which should allow the company to outgrow most of its peers over the next five years.
- Industrial manufacturing and engineering company **Colfax Corp.** underperformed following the announcement of the company's acquisition of medical device company DJO Global. While investors expected Colfax to make an acquisition that would move the company into a new, less cyclical business, we believe the size and timing of the deal is somewhat distressing. Colfax will now be highly levered, just as cyclical concerns about the economy begin to mount. However, we believe the deal is likely to create value over time for long term shareholders.
- Electronic payment processing services company **Worldpay, Inc.** underperformed after reporting quarterly results which caused investors, who became too optimistic about the potential impact of merger synergies from the Vantiv-Worldpay deal, to lower earnings estimates for 2019. Worldpay continues to benefit from the growth of e-commerce globally, integrated payments taking off in the U.K. and Europe, and from entering new geographies. We remain confident that Worldpay will continue to grow revenue and earnings over the long term.
- Shares of **SVB Financial Group**, a California-based regional bank, were impacted negatively by three primary developments. Given its focus on the innovation economy, shares were impacted by the decline in high-profile tech stocks. The company also announced the acquisition of health care investment bank Leerink Partners, which concerned some investors about the price paid as well as the volatility the investment banking business could introduce into future earnings. Finally, the company's investor day included comments about some short-term deposit outflows, which we believe to be part of the normal course of business.

¹ As of February 1, 2019.

(closed to new investors)

- Shares of casino operator **Red Rock Resorts, Inc. (CIA)** declined amid margin compression related to some opportunistic operating expenditures. These results, coupled with broader economic concerns, led to significant multiple compression across the gaming industry. We remain positive on the long-term prospects for Red Rock's business.

New Positions

- **Cal-Maine Foods, Inc.** is the largest producer and marketer of shell eggs in the United States. We believe Cal-Maine is a well-run, long-term oriented business with a strong balance sheet, good returns on capital, and underappreciated competitive advantages.
- **Stericycle, Inc.** is the largest provider of regulated medical waste management. The company provides a full roster of services to its customers from front-end waste collection to transportation and treatment at the company's facilities. Stericycle is the share leader and although the company has run into some transitory issues, we believe that management will overcome these challenges and start growing the business again.
- **Welbilt, Inc.** is one of the leading companies in the commercial food equipment industry, where market leaders enjoy meaningful scale benefits and earn attractive returns on capital by providing valuable labor, energy, and food waste reduction solutions to commercial kitchens. After being under-managed for several years, Welbilt's new management team is much more focused on improving operating efficiencies and increasing the core sustainable earnings power of the business.

- **WPX Energy, Inc. (CIA)** is a high-growth oil and gas exploration and production company with very attractive assets in the Bakken and Delaware basins. We believe the firm has de-risked its business plan over the past few years and has a long runway to continue growing oil production. Additionally, the firm's midstream businesses formed over the past few years are valuable hidden assets that could be monetized over the next few years.

Eliminated Positions

- We eliminated our position in networking and communications company **CommScope Holding Co., Inc.** after the company announced an ill-advised acquisition of Arris International.
- The position in tire manufacturer **Goodyear Tire & Rubber Co.** was eliminated to help fund better opportunities.
- We sold our shares of hospital owner and operator **LifePoint Health, Inc.** in an all-cash acquisition by Apollo Global Management.
- We eliminated shares of medical device company **Orthofix Medical, Inc.** from our portfolios as the shares reached our estimate of intrinsic value.

Diamond Hill Small-Mid Cap Strategy

As of December 31, 2018

(closed to new investors)

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2005

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	4Q18
SMALL-MID CAP COMPOSITE							
Gross of Fees	8.57	13.94	5.11	4.92	-11.71	-11.71	-14.56
Net of Fees	7.78	13.13	4.37	4.17	-12.35	-12.35	-14.72
BENCHMARKS							
Russell 2500 Index	7.50	13.15	5.15	7.32	-10.00	-10.00	-18.49
Russell 2500 Value Index	6.52	11.62	4.16	6.59	-12.36	-12.36	-17.12

CALENDAR YEAR RETURNS (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
SMALL-MID CAP COMPOSITE										
Gross of Fees	41.71	24.74	-2.96	16.93	43.32	8.43	2.45	19.31	9.63	-11.71
Net of Fees	40.52	23.72	-3.62	16.19	42.39	7.70	1.75	18.47	8.85	-12.35
BENCHMARKS										
Russell 2500 Index	34.39	26.71	-2.51	17.88	36.80	7.07	-2.90	17.59	16.81	-10.00
Russell 2500 Value Index	27.68	24.82	-3.36	19.21	33.32	7.11	-5.49	25.20	10.36	-12.36

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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 Dispersion (Gross of Fees)	Small-Mid Cap Composite	Russell 2500 Index	Russell 2500 Value Index
2018	\$19.1B	14	\$2.5B	0.04%	11.90%	14.10%	13.58%
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

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 decreased 13.43%, net of fees, compared to a 15.37% decrease in the Russell Midcap Index and a 14.95% decrease in the Russell Midcap Value Index.

The Composite's holdings in all sectors detracted from absolute return, led by the financials sector. The industrials, consumer discretionary, and energy sectors were also large detractors from absolute return.

The Composite's outperformance relative to the Russell Midcap Index was primarily driven by security selection in the health care sector, as well as a high single-digit cash allocation. Security selection in the real estate and industrials sectors also contributed to relative return. Security selection in the information technology sector was the largest detractor from relative return.

Best Performers

- Insurance broker **Willis Towers Watson PLC** outperformed after the company reported strong earnings, including better-than-expected organic revenue growth.
- Shares of reinsurance company **RenaissanceRe Holdings Ltd.** rose despite the lack of material company-specific news. The company's business is generally less exposed to overall market risks and tends to outperform during periods of overall market stress.
- Processed and packaged foods manufacturer **B&G Foods, Inc.** outperformed as the company has been able to take pricing with minimal volume elasticity, which has helped to offset the difficult input cost environment. The company also announced the sale of its Pirate Brands business for a favorable price, using the proceeds from the transaction to pay down debt.
- Shares of digital media company **TEGNA, Inc.** rose amid rumors of a potential acquisition. The company also reported decent quarterly results.
- Hospital owner and operator **LifePoint Health, Inc.** outperformed after the company was acquired by Apollo Global Management.

TEAM



Chris Welch, CFA
Portfolio Manager



Chris Bingaman CFA
Asst. Portfolio Manager



Jenny Hubbard, CFA
Asst. Portfolio Manager

Worst Performers

- Underperformance of oil and gas exploration and production company **Cimarex Energy Co.** likely reflects the steep drop in oil prices throughout the quarter. The current outlook for oil prices in 2019 suggests that the broader domestic exploration and production industry will have to substantially slow its drilling activities. We still believe Cimarex holds very attractive assets, which should allow the company to outgrow most of its peers over the next five years.
- Shares of **SVB Financial Group**, a California-based regional bank, were impacted negatively by three primary developments. Given its focus on the innovation economy, shares were impacted by the decline in high-profile tech stocks. The company also announced the acquisition of health care investment bank Leerink Partners, which concerned some investors about the price paid as well as the volatility the investment banking business could introduce into future earnings. Finally, the company's investor day included comments about some short-term deposit outflows, which we believe to be part of the normal course of business.
- Shares of casino operator **Red Rock Resorts, Inc. (CIA)** declined amid margin compression related to some opportunistic operating expenditures. These results, coupled with broader economic concerns, led to significant multiple compression across the gaming industry. We remain positive on the long-term prospects for Red Rock's business.
- Electronic payment processing services company **Worldpay, Inc.** underperformed after reporting quarterly results which caused investors, who became too optimistic about the potential impact of merger synergies from the Vantiv-Worldpay deal, to lower earnings estimates for 2019. Worldpay continues to benefit from the growth of e-commerce globally, integrated payments taking off in the U.K. and Europe, and from entering new geographies. We remain confident that Worldpay will continue to grow revenue and earnings over the long term.

- Industrial manufacturing and engineering company **Colfax Corp.** underperformed following the announcement of the company's acquisition of medical device company DJO Global. While investors expected Colfax to make an acquisition that would move the company into a new, less cyclical business, we believe the size and timing of the deal is somewhat distressing. Colfax will now be highly levered, just as cyclical concerns about the economy begin to mount. However, we believe the deal is likely to create value over time for long-term shareholders.

New Positions

- We initiated an investment in oil and gas exploration and production company **Noble Energy, Inc.** as we believed a wave of uncertainty had been overly discounted in the valuation and that the market was underestimating Noble Energy's free cash flow potential. Investors were primarily concerned with an unsuccessful November ballot initiative that would have restricted Colorado drilling activity. There was also concern about near-term pricing risk in the Permian Basin from a lack of secure transportation agreements, but we believed this would be solved by late 2019.
- **Stericycle, Inc.** is the largest provider of regulated medical waste management. The company provides a full roster of services to its customers from front-end waste collection to transportation and treatment at the company's facilities. Stericycle is the share leader and although the company has run into some transitory issues, we believe that management will overcome these challenges and start growing the business again.

Eliminated Positions

- As the share price of insurance broker **Brown & Brown, Inc.** approached our estimate of intrinsic value, we eliminated the position to add to more favorable opportunities.
- We eliminated our position in networking and communications company **CommScope Holding Co., Inc.** after the company announced an ill-advised acquisition of Arris International.
- The position in tire manufacturer **Goodyear Tire & Rubber Co.** was eliminated to help fund better opportunities.
- We sold our shares of hospital owner and operator **LifePoint Health, Inc.** in an all-cash acquisition by Apollo Global Management.
- We sold our position in digital media company **TEGNA, Inc.** as the decline in its core advertising business and long-term concerns over net retransmission profits led us to find the business less attractive relative to other opportunities.

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2013

	SINCE INCEPTION	5-YR	3-YR	1-YR	YTD	4Q18
MID CAP COMPOSITE						
Gross of Fees	5.90	5.90	6.40	-9.54	-9.54	-13.30
Net of Fees	5.23	5.23	5.74	-10.11	-10.11	-13.43
BENCHMARKS						
Russell Midcap Index	6.26	6.26	7.04	-9.06	-9.06	-15.37
Russell Midcap Value Index	5.44	5.44	6.06	-12.29	-12.29	-14.95

CALENDAR YEAR RETURNS (%)

	2014	2015	2016	2017	2018
MID CAP COMPOSITE					
Gross of Fees	8.84	1.59	19.62	11.31	-9.54
Net of Fees	8.13	0.94	18.85	10.66	-10.11
BENCHMARKS					
Russell Midcap Index	13.22	-2.44	13.80	18.52	-9.06
Russell Midcap Value Index	14.75	-4.78	20.00	13.34	-12.29

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 5/31/00–9/30/18. Diamond Hill's current verification firm is ACA Compliance Group. The verification report(s) is/are available upon request. 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. Verification does not ensure the accuracy of any specific composite presentation. 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 Mid Cap Composite is comprised of discretionary, fee-paying, non-wrap accounts managed according to the firm's Mid Cap equity strategy. The strategy's investment objective is to achieve long-term capital appreciation by investing in medium market capitalization companies selling for less than our estimate of intrinsic value. Medium market capitalization companies are defined as those companies with a market capitalization between \$1.5 and \$20 billion (or, if greater, the maximum market capitalization of companies generally within the capitalization range of the Russell Midcap 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 Midcap Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 800 smallest companies, on a market capitalization basis, in the Russell 1000 Index. The Russell Midcap Value Index is shown as additional information. This index is an unmanaged market-capitalization weighted index measuring the performance of the mid cap value segment of the U.S. equity universe including those Russell Midcap Index companies with lower expected growth values. The Russell 1000 Index measures the performance of the largest 1,000 companies in the Russell 3000 Index. 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 Mid Cap separate accounts is as follows: First \$20,000,000 = 0.70%; Over \$20,000,000 = 0.60%. 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.** 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 (Gross of Fees)	Dispersion (Gross of Fees)	Mid Cap Composite	Russell Midcap Index
2018	\$19.1B	5 or fewer	\$143.5M	NA ¹	11.42%	11.98%	11.96%
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 decreased 13.41%, net of fees, compared to a 13.82% decrease in the Russell 1000 Index and an 11.72% decrease in the Russell 1000 Value Index.

The Composite's holdings in all sectors detracted from absolute return, led by the financials sector. The energy and consumer discretionary sectors were also large detractors from absolute return.

The Composite's modest outperformance relative to the Russell 1000 Index was driven by security selection and overweight positions in the health care and consumer staples sectors. A large underweight position in the information technology sector also contributed to relative return. Security selection in the energy sector was the largest detractor from relative return.

Best Performers

- Shares of consumer products manufacturer **Procter & Gamble Co.** rallied after reporting solid quarterly results due to a better-than-expected pricing environment in the U.S., as well as a softening input cost environment.
- Homebuilder **NVR, Inc.** reported decent quarterly results and outperformed the broader market, primarily due to the significant price declines in homebuilders taking place earlier in the year and the ensuing pessimism built into the stock price prior to the start of the quarter. Additionally, the rise in mortgage rates slowed, giving the housing market some relief from earlier in the year.
- Personal products manufacturer **Kimberly-Clark Corp.** outperformed after the company reported decent quarterly results and investor fears over an intensifying cost environment began to soften.
- We received shares of automobile equipment manufacturer **Garrett Motion, Inc.** and security services provider **Resideo Technologies, Inc.** after the companies were spun off from Honeywell International, Inc. They were quickly eliminated from the portfolio to allocate funds to more attractive investment opportunities. During the time they were held, they were down less than the overall market.

TEAM



Chuck Bath, CFA
Portfolio Manager



Austin Hawley, CFA
Portfolio Manager



Chris Welch, CFA
Asst. Portfolio Manager



Matthew Stadelman, CFA
Sr. Portfolio Specialist

Worst Performers

- Underperformance of oil and gas exploration and production companies **Devon Energy Corp.** and **Cimarex Energy Co.** likely reflects the steep drop in oil prices throughout the quarter. The current outlook for oil prices in 2019 suggests that the broader domestic exploration and production industry will have to substantially slow its drilling activities. We still believe both companies hold very attractive assets, which should allow them to outgrow most peers over the next five years.
- Banking and financial services company **Citigroup, Inc.** underperformed amid a flattening of the yield curve as well as concerns over the outlook for economic growth and the resulting implications for loan growth and credit quality. Pressures on various emerging markets along with softness in global capital markets activities also weighed heavily on its stock. We believe that the company's capital position and solid profitability allow for continued modest balance sheet growth, while also repurchasing shares at a substantial discount to both tangible book value and our estimate of intrinsic value.
- Banking and payment services provider **Discover Financial Services** underperformed despite reporting strong loan growth, as well as reasonable charge-off and delinquency statistics. The company continues to achieve attractive risk-adjusted margins in its core credit card lending business, but investors have steered away from credit card stocks based on recessionary and credit cycle fears. We believe the valuation is compelling, and that the market is not giving Discover credit for its underlying through-the-cycle earnings power.
- Shares of building and aerospace technology conglomerate **United Technologies Corp.** declined after the company announced its intention to spin off its Aerospace, Carrier, and Otis businesses into three standalone companies. Since the announcement, shares have remained under pressure due to concerns over a peaking of the economic growth cycle.

New Positions

- We established a position in property and casualty insurance company **American International Group, Inc.** (AIG) after the share price declined sharply. We believe AIG now has one of the best management teams in the industry and is nearing an inflection point in its turnaround.
- Global automobile manufacture **General Motors Co.** (GM) has a strong product mix and cash flow driven by its truck and SUV programs. As the mix of auto sales trends more towards crossovers, SUVs, and trucks, we believe GM is well positioned.
- We initiated an investment in oil and gas exploration and production company **Noble Energy, Inc.** as we believed a wave of uncertainty had been overly discounted in the valuation and that the market was underestimating Noble Energy's free cash flow potential. Investors were primarily concerned with an unsuccessful November ballot initiative that would have restricted Colorado drilling activity. There was also concern about near-term pricing risk in the Permian Basin from a lack of secure transportation agreements, but we believed this would be solved by late 2019.

Eliminated Positions

- A full position in alcoholic beverage manufacturer **Constellation Brands, Inc. (CIA)** was never established and was sold to invest in a higher conviction idea.
- Health care benefits company **Aetna, Inc.** ceased trading as a separate entity after it was acquired by CVS, with the Department of Justice granting approval in October.
- We received shares of automobile equipment manufacturer **Garrett Motion, Inc.** and security services provider **Resideo Technologies, Inc.** after the companies were spun off from Honeywell International, Inc. They were eliminated from the portfolio to allocate funds to more attractive investment opportunities.

Diamond Hill Large Cap Strategy

As of December 31, 2018

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: June 30, 2001

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	4Q18
LARGE CAP COMPOSITE							
Gross of Fees	8.84	12.81	7.24	8.37	-8.81	-8.81	-13.29
Net of Fees	8.24	12.23	6.68	7.84	-9.27	-9.27	-13.41
BENCHMARKS							
Russell 1000 Index	6.50	13.28	8.21	9.09	-4.78	-4.78	-13.82
Russell 1000 Value Index	6.30	11.18	5.95	6.95	-8.27	-8.27	-11.72

CALENDAR YEAR RETURNS (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
LARGE CAP COMPOSITE										
Gross of Fees	31.49	10.61	3.60	13.35	37.79	11.60	-0.16	15.24	21.10	-8.81
Net of Fees	30.79	10.00	3.11	12.79	37.06	10.99	-0.72	14.71	20.51	-9.27
BENCHMARKS										
Russell 1000 Index	28.43	16.10	1.50	16.42	33.11	13.24	0.92	12.05	21.69	-4.78
Russell 1000 Value Index	19.69	15.51	0.39	17.51	32.53	13.45	-3.83	17.34	13.66	-8.27

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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
2018	\$19.1B	199	\$8.0B	0.36%	11.63%	10.95%	10.82%
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

NA = Not applicable

This composite was created in October 2013.

**Global Investment
Performance Standards**

The Composite decreased 13.81%, net of fees, compared to a 13.82% decrease in the Russell 1000 Index and an 11.72% decrease in the Russell 1000 Value Index.

The Composite's holdings in the financials sector were the largest detractors from absolute return, followed by positions in the consumer discretionary and energy sectors.

The Composite performed in line with the Russell 1000 Index. Security selection within the information technology and health care sectors contributed to relative return. An overweight allocation within the consumer staples sector and the strategy's cash allocation also contributed to relative return. Security selection within the energy sector was the largest detractor from relative return.

Best Performers

- Shares of consumer products manufacturer **Procter & Gamble Co.** rallied after reporting solid quarterly results due to a better-than-expected pricing environment in the U.S., as well as a softening input cost environment.
- Health care products manufacturer **Abbott Laboratories** outperformed amid strong organic growth, particularly in its nutrition segment, which has underperformed over the past few years. We believe that the company's decision to accelerate debt pay-down from the Alere and St. Jude deals will prove to be a prudent move in the years to come.
- Homebuilder **NVR, Inc.** reported decent quarterly results and outperformed the broader market, primarily due to the significant price declines in homebuilders taking place earlier in the year and the ensuing pessimism built into the stock price prior to the start of the quarter. Additionally, the rise in mortgage rates slowed, giving the housing market some relief from earlier in the year.
- Biopharmaceutical company **Pfizer, Inc.** outperformed after the company announced that CEO Ian Read would retire and be replaced by the head of research and development, Albert Bourla. The company's recent clinical development success can be associated with Mr. Bourla's leadership, and we believe his appointment should be encouraging for shareholders. The company also announced that it would put its consumer business into a joint venture with GlaxoSmithKline, giving the company an attractive exit strategy through an IPO within the next three years.

TEAM



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Portfolio Manager



Austin Hawley, CFA
Portfolio Manager



Chris Welch, CFA
Asst. Portfolio Manager



Matthew Stadelman, CFA
Sr. Portfolio Specialist

- Shares of consumer snack and beverage manufacturer **PepsiCo, Inc.** rallied after reporting strong quarterly results across all geographies, including the challenging U.S. market.

Worst Performers

- Underperformance of oil and gas exploration and production company **Devon Energy Corp.** likely reflects the steep drop in oil prices throughout the quarter. The current outlook for oil prices in 2019 suggests that the broader domestic exploration and production industry will have to substantially slow its drilling activities. We still believe Devon holds very attractive assets, which should allow the company to outgrow most of its peers over the next five years.
- Banking and financial services company **Citigroup, Inc.** underperformed amid a flattening of the yield curve as well as concerns over the outlook for economic growth and the resulting implications for loan growth and credit quality. Pressures on various emerging markets along with softness in global capital markets activities also weighed heavily on its stock. We believe that the company's capital position and solid profitability allow for continued modest balance sheet growth, while also repurchasing shares at a substantial discount to both tangible book value and our estimate of intrinsic value.
- Shares of building and aerospace technology conglomerate **United Technologies Corp.** declined after the company announced its intention to spin off its Aerospace, Carrier, and Otis businesses into three standalone companies. Since the announcement, shares have remained under pressure due to concerns over a peaking of the economic growth cycle.
- Banking and payment services provider **Discover Financial Services** underperformed despite reporting strong loan growth, as well as reasonable charge-off and delinquency statistics. The company continues to achieve attractive risk-adjusted margins in its core credit card lending business, but investors have steered away from credit card stocks based on recessionary and credit cycle fears. We believe the valuation is compelling, and that the market is not giving Discover credit for its underlying through-the-cycle earnings power.

- Shares of tobacco products manufacturer **Philip Morris International, Inc.** declined after the release of a negative report issued by a sell-side research firm which estimated a much smaller global market for heated tobacco products than what is currently being touted by the tobacco industry.

New Positions

- We added pharmacy health care services provider **CVS Health Corp.**, which is trading at trough levels and does not appear to reflect any of the potential benefits from its acquisition of Aetna. Both CVS and Aetna have been stable operationally and have benefitted from tax rates which were essentially cut in half by reform. We believe the market will begin to view the combined company through a different lens as the integration progresses and the company gradually de-emphasizes front store sales in favor of health services.
- **NVR, Inc.** is the fourth-largest homebuilder in the U.S. by volume and concentrates its efforts primarily in the Mid-Atlantic. While it operates in a cyclical and competitive industry, the combination of NVR's land-light strategy, leading local market share, efficient construction process, and excellent employee retention allows them to achieve high returns on capital over the long term while minimizing inventory risk. During good times, we believe NVR will grow and benefit from housing tail winds. During bad times, management has proven to be excellent opportunistic capital allocators through repurchasing shares at attractive prices, entering new markets, and taking advantage of competitor distress.

Eliminated Positions

- Health care benefits company **Aetna, Inc.** ceased trading as a separate entity after it was acquired by CVS, with the Department of Justice granting approval in October.
- We closed our position in consumer goods manufacturer **V.F. Corp.** to fund investments in more attractive opportunities.

Diamond Hill Large Cap Concentrated Strategy

As of December 31, 2018

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2011

	SINCE INCEPTION	5-YR	3-YR	1-YR	YTD	4Q18
LARGE CAP CONCENTRATED COMPOSITE						
Gross of Fees	12.04	7.75	9.69	-7.15	-7.15	-13.70
Net of Fees	11.66	7.52	9.28	-7.63	-7.63	-13.81
BENCHMARKS						
Russell 1000 Index	12.63	8.21	9.09	-4.78	-4.78	-13.82
Russell 1000 Value Index	11.02	5.95	6.95	-8.27	-8.27	-11.72

CALENDAR YEAR RETURNS (%)

	2012	2013	2014	2015	2016	2017	2018
LARGE CAP CONCENTRATED COMPOSITE							
Gross of Fees	10.00	38.75	10.70	-0.59	19.17	19.28	-7.15
Net of Fees	9.74	37.22	10.63	-0.46	19.16	18.57	-7.63
BENCHMARKS							
Russell 1000 Index	16.42	33.11	13.24	0.92	12.05	21.69	-4.78
Russell 1000 Value Index	17.51	32.53	13.45	-3.83	17.34	13.66	-8.27

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 Capital Management Inc. (DHCM) has been independently verified for the periods 5/31/00 – 9/30/18. DHCM'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 Large Cap Concentrated Composite has received a Performance Examination from 12/31/11 – 9/30/18. The verification and performance exam reports are available upon request. DHCM 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. DHCM 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 Large Cap Concentrated Composite is comprised of discretionary fee paying non-wrap accounts managed according to the firm's Large Cap Concentrated equity strategy. The strategy's investment objective is to achieve long-term capital appreciation by investing in large capitalization companies selling for less than our estimate of intrinsic value. Holdings are derived from holdings in the Diamond Hill Large Cap strategy. The Large Cap strategy typically invests in large-capitalization companies, which are defined as companies with a market capitalization of \$5 billion or greater. However, the Large Cap strategy can invest in companies with a market capitalization as low as \$2.5 billion. 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 1000 Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 1,000 largest companies, on a market capitalization basis, in the Russell 3000 Index. The Russell 1000 Value Index is shown as additional information. This index is an unmanaged market-capitalization weighted index measuring the performance of the large cap value segment of the U.S. equity universe including those Russell 1000 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 Large Cap separate accounts is as follows: First \$20,000,000 = 0.65%; Over \$20,000,000 = 0.55%. 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.** 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	LARGE CAP CONCENTRATED COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
	Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Large Cap Concentrated Composite	Russell 1000 Index	Russell 1000 Value Index
2018	\$19.1B	5 or fewer	\$25.6M	NA ¹	12.34%	10.95%	10.82%
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 decreased 15.84%, net of fees, compared to a 14.30% decrease in the Russell 3000 Index and a 12.24% decrease in the Russell 3000 Value Index.

The Composite's holdings in nearly all sectors detracted from absolute return, led by the financials sector. The energy and consumer discretionary sectors were also large detractors from absolute return. Only the real estate sector provided a modest contribution to return.

The Composite's underperformance relative to the Russell 3000 Index was driven primarily by security selection in the energy, financials, and consumer staples sectors. Security selection in the industrials sector, as well as a combination of security selection and an underweight position in the information technology sector were the largest contributors to relative return.

Best Performers

- Real estate investment trust **CubeSmart** outperformed amid steady and resilient storage fundamentals despite increasing levels of new development, and the hope that peaking new development will lead to a stabilization of internal growth within the next 12-18 months.
- Homebuilder **NVR, Inc.** reported decent quarterly results and outperformed the broader market, primarily due to the significant price declines in homebuilders taking place earlier in the year and the ensuing pessimism built into the stock price prior to the start of the quarter. Additionally, the rise in mortgage rates slowed, giving the housing market some relief from earlier in the year.
- Data analytics company **Verisk Analytics, Inc.** outperformed after the company reported quarterly results that demonstrated solid performance in each of the company's three segments. Importantly, the company's insurance segment, which accounts for the vast majority of revenue and earnings, remains uniquely positioned to provide value to clients and continue to grow its revenue base and earnings power.
- Airline operator **Copa Holdings S.A. (CI A)** outperformed, as the company's management team continued to execute on key long-term initiatives, despite near-term financial results being affected by a difficult combination of higher oil prices and steep currency depreciation in Brazil and Argentina.

TEAM



Austin Hawley, CFA
Portfolio Manager



Rick Snowdon, CFA
Portfolio Manager

- Health care products manufacturer **Abbott Laboratories** outperformed amid strong organic growth, particularly in its nutrition segment, which has underperformed over the past few years. We believe that the company's decision to accelerate debt pay-down from the Alere and St. Jude deals will prove to be a prudent move in the years to come.

Worst Performers

- Shares of **Bank OZK**, an Arkansas-based regional bank, declined after the company reported disappointing quarterly results that included two credit-related issues which fueled concerns about the health of commercial real estate in general, as well as the future trajectory of credit at the bank. We believe these were isolated events from legacy credits underwritten before the great financial crisis and are not indicative of the quality of the rest of the company's loan portfolio.
- Underperformance of oil and gas exploration and production company **Cimarex Energy Co.** likely reflects the steep drop in oil prices throughout the quarter. The current outlook for oil prices in 2019 suggests that the broader domestic exploration and production industry will have to substantially slow its drilling activities. We still believe Cimarex holds very attractive assets, which should allow the company to outgrow most of its peers over the next five years.
- Shares of real estate services company **Mr. Cooper Group, Inc.** were impacted by selling pressure from legacy shareholders of predecessor company WMIH Corp. The shareholders were willing sellers at almost any price and were selling a less liquid security into a volatile market, which translated into a significant headwind for shares.
- Shares of casino operator **Red Rock Resorts, Inc. (CI A)** declined amid margin compression related to some opportunistic operating expenditures. These results, coupled with broader economic concerns, led to significant multiple compression across the gaming industry. We remain positive on the long-term prospects for Red Rock's business.

- Shares of life insurance and annuity provider **Brighthouse Financial, Inc.** declined in conjunction with the equity market sell-off. The company's variable annuity assets are exposed to both interest rates and equity markets, and shares tend to underperform during periods of market stress.

New Positions

- We initiated a new position in the shares of pharmaceutical company **Allergan PLC** at an attractive valuation for relatively low-risk cash flows supported by durable assets. We believe management can unlock the company's value through asset disposals or further pipeline development in the coming years.
- We established a position in property and casualty insurance company **American International Group, Inc.** (AIG) after the share price declined sharply. We believe AIG now has one of the best management teams in the industry and is nearing an inflection point in its turnaround.
- **Copa Holdings S.A. (CIA)** is a well-managed Latin American airline operator with an attractive growth profile over the next five to 10 years. The firm's poor near-term financial results reflect higher oil prices and steep currency depreciation in Brazil and Argentina. We believe Copa's management will bring margins back to historical levels.
- We initiated an investment in oil and gas exploration and production company **Noble Energy, Inc.** as we believed a wave of uncertainty had been overly discounted in the valuation and that the market was underestimating Noble Energy's free cash flow potential. Investors were primarily concerned with an unsuccessful ballot initiative in November that would have restricted Colorado drilling activity. There was also concern about near-term pricing risk in the Permian Basin from a lack of secure transportation agreements, but we believed this would be solved by late 2019.

Eliminated Positions

- Health care benefits company **Aetna, Inc.** ceased trading as a separate entity after it was acquired by CVS, with the Department of Justice granting approval in October.
- We sold our shares of health care products manufacturer **Abbott Laboratories** after several years of strong performance and replaced the position with companies trading at a larger discount to intrinsic value.
- Coating products manufacturer **Axalta Coating Systems Ltd.** and medical liability insurance company **ProAssurance Corp.** were eliminated in favor of more attractive opportunities.
- We sold our shares of real estate investment trust **CubeSmart** after shares appreciated to fund positions in companies trading at greater discounts to intrinsic value.
- We initiated an investment in oil and gas exploration and production company **Devon Energy Corp.** and subsequently eliminated the position as a re-evaluation of the sector fundamentals led us to reduce our estimate of intrinsic value and we found more attractive investment opportunities outside of the energy sector.
- Positions in discount retailers **Dollar General Corp.** and **TJX Cos., Inc.** were eliminated as the stock prices reached our estimates of intrinsic value.
- After approaching our estimate of intrinsic value, consumer snack and beverage manufacturer **PepsiCo, Inc.** was eliminated to make room for higher conviction ideas.
- We eliminated our position in food products manufacturer **Post Holdings, Inc.** and data analytics company **Verisk Analytics, Inc.** to make room for higher conviction ideas after the stocks ran up close to our estimates of intrinsic value.

Diamond Hill All Cap Select Strategy

As of December 31, 2018

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: June 30, 2000

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	4Q18
ALL CAP SELECT COMPOSITE							
Gross of Fees	9.84	12.63	5.99	6.07	-11.20	-11.20	-15.70
Net of Fees	9.11	11.97	5.41	5.47	-11.74	-11.74	-15.84
BENCHMARKS							
Russell 3000 Index	5.32	13.18	7.91	8.97	-5.24	-5.24	-14.30
Russell 3000 Value Index	6.67	11.12	5.77	7.01	-8.58	-8.58	-12.24

CALENDAR YEAR RETURNS (%)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
ALL CAP SELECT COMPOSITE										
Gross of Fees	34.83	11.51	-0.58	12.70	45.86	12.60	-0.48	10.84	21.26	-11.20
Net of Fees	33.89	10.74	-1.21	12.00	45.11	12.07	-1.01	10.22	20.60	-11.74
BENCHMARKS										
Russell 3000 Index	28.34	16.93	1.03	16.42	33.55	12.56	0.48	12.74	21.13	-5.24
Russell 3000 Value Index	19.76	16.23	-0.10	17.55	32.69	12.70	-4.13	18.40	13.19	-8.58

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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)	All Cap Select Composite	Russell 3000 Index	Russell 3000 Value Index
2018	\$19.1B	13	\$310.7M	0.10%	13.45%	11.18%	11.05%
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

NA = Not Applicable

This composite was created in October 2013.

Global Investment Performance Standards

The Composite decreased 15.89%, net of fees, compared to a 13.00% decrease in the Morningstar Global Markets Index.

The Composite's holdings in all sectors detracted from absolute return, led by the financials sector.

The Composite's underperformance relative to the Index was driven primarily by security selection in the energy, consumer staples, and financials sectors. Security selection in the industrials and information technology sectors, and an underweight position in the information technology sector contributed to relative return.

During the fourth quarter, all major developed stock markets and most emerging markets declined, and full-year equity returns were negative across the vast majority of countries. Investors' January optimism steadily gave way to concerns about some emerging market instabilities, slowing global growth, increasing trade frictions, tighter monetary conditions and equity valuations.

Discounts in the Global portfolio widened considerably during the fourth quarter, and we currently see particularly compelling valuations in financials and certain other economically sensitive businesses we hold. While 2018 proved to be a disappointing year for our investors, we believe valuations in the portfolio are currently very attractive, and the companies we own are positioned to weather the next cyclical downturn.

Best Performers

- Property and casualty insurance company **American International Group, Inc.** outperformed after providing intermediate term guidance that was better than many investors had anticipated.
- Investment manager **Ashmore Group PLC** outperformed after the company reported resilient inflows into its strategies, despite broader fears about emerging market weakness in the asset management space.
- Shares of communication services provider **BT Group PLC** declined less than broader indices as the company delivered an in-line quarter and maintained its full-year outlook.

TEAM



Grady Burkett, CFA
Portfolio Manager



Rick Snowden, CFA
Portfolio Manager

- Homebuilder **NVR, Inc.** reported decent quarterly results and outperformed the broader market, primarily due to the significant price declines in homebuilders taking place earlier in the year and the ensuing pessimism built into the stock price prior to the start of the quarter. Additionally, the rise in mortgage rates slowed, giving the housing market some relief from earlier in the year.
- Biopharmaceutical company **Sanofi S.A.** outperformed after reporting solid quarterly results, with earnings and revenue ahead of expectations. The company's recent launches, Praluent and Dupixent, also continued to outperform expectations.

Worst Performers

- Shares of **Bank OZK**, an Arkansas-based regional bank, declined after the company reported disappointing quarterly results that included two credit-related issues which fueled concerns about the health of commercial real estate in general, as well as the future trajectory of credit at the bank. We believe these were isolated events from legacy credits underwritten before the great financial crisis and are not indicative of the quality of the rest of the company's loan portfolio.
- Underperformance of oil and gas exploration and production company **Cimarex Energy Co.** likely reflects the steep drop in oil prices throughout the quarter. The current outlook for oil prices in 2019 suggests that the broader domestic exploration and production industry will have to substantially slow its drilling activities. We still believe Cimarex holds very attractive assets, which should allow the company to outgrow most of its peers over the next five years.
- Shares of life insurance and annuity provider **Brighthouse Financial, Inc.** declined in conjunction with the equity market sell-off. The company's variable annuity assets are exposed to both interest rates and equity markets, and shares tend to underperform during periods of market stress.

- Shares of private banking services company **Julius Baer Gruppe A.G.** sold off in a correlated fashion with other global and European banks on fears of “Brexit,” government borrowing levels in Italy, and a possible European recession.
- Shares of private banking services company **Credit Suisse Group A.G.** declined in a correlated global bank sell-off as investors “de-risked” across the board. Credit Suisse is one of the world’s largest private banks, with a commanding banking presence in its home market Switzerland and strong global investment banking capabilities. We believe the firm is well capitalized and maintains a focus on cost control and sound capital generation with shareholder-friendly capital return.

New Positions

- We initiated a new position in the shares of pharmaceutical company **Allergan PLC** at an attractive valuation for relatively low-risk cash flows supported by durable assets. We believe management can unlock the company’s value through asset disposals or further pipeline development in the coming years.
- We established a position in property and casualty insurance company **American International Group, Inc.** (AIG) after the share price declined sharply. We believe AIG now has one of the best management teams in the industry and is nearing an inflection point in its turnaround.
- **Copa Holdings S.A. (CIA)** is a well-managed Latin American airline operator with an attractive growth profile over the next five to 10 years. The firm’s poor near-term financial results reflect higher oil prices and steep currency depreciation in Brazil and Argentina. We believe Copa’s management will bring margins back to historical levels.
- We initiated an investment in oil and gas exploration and production company **Devon Energy Corp.** and subsequently eliminated the position as a re-evaluation of the sector fundamentals led us to reduce our estimate of intrinsic value and we found more attractive investment opportunities.
- We initiated an investment in oil and gas exploration and production company **Noble Energy, Inc.** as we believed a wave of uncertainty had been overly discounted in the valuation and that the market was underestimating Noble Energy’s free cash flow potential. Investors were primarily concerned with an unsuccessful November ballot initiative that would have restricted Colorado drilling activity. There was also concern about near-term pricing risk in the Permian Basin from a lack of secure transportation agreements, but we believed this would be solved by late 2019.
- **Sherwin Williams Co.** Paint Stores Group is among the strongest businesses in the coatings sector and caters to the professional painting contractor in the United States, taking share from the DIY (do-it-yourself) painter over the past several decades. This trend has led to market share gains for Sherwin Williams which we believe is likely to continue. U.S. housing market slowdown concerns presented an opportunity for us to invest in a dominant franchise at a discount to intrinsic value.

Eliminated Positions

- Coating products manufacturer **Axalta Coating Systems Ltd.**, regional banks **BankUnited, Inc.** and **First Republic Bank**, and biopharmaceutical company **Sanofi S.A.** were eliminated in favor of more attractive opportunities.
- We eliminated the shares of life sciences company **Bayer A.G.** due to the potentially detrimental impact of Roundup-related litigation on the company’s long-term intrinsic value. Our confidence in Bayer’s management team has eroded since the Monsanto acquisition, and subsequent developments led us to believe Bayer did not conduct adequate due diligence on Monsanto and that it took unnecessary risks that damaged its long-term prospects.
- We eliminated our position in food products manufacturer **Post Holdings, Inc.** to make room for higher conviction ideas after the stock ran up close to our estimate of intrinsic value.
- Shares of French reinsurance company **SCOR S.E.** approached our estimate of intrinsic value after the company received a purchase offer from French mutual insurer Covea and we eliminated the position to add to more favorable opportunities.
- Convenience store operator **Seven & I Holdings Co. Ltd.** was eliminated as the stock price reached our estimate of intrinsic value.

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2013

	SINCE INCEPTION	5-YR	3-YR	1-YR	YTD	4Q18
GLOBAL COMPOSITE						
Gross of Fees	4.43	4.43	7.87	-13.90	-13.90	-15.73
Net of Fees	4.28	4.28	7.62	-14.50	-14.50	-15.89
BENCHMARKS						
Morningstar Global Markets Index	4.25	4.25	6.53	-9.82	-9.82	-13.00

CALENDAR YEAR RETURNS (%)

	2014	2015	2016	2017	2018
GLOBAL COMPOSITE					
Gross of Fees	3.69	-4.58	11.42	30.84	-13.90
Net of Fees	3.69	-4.58	11.42	30.84	-14.50
BENCHMARKS					
Morningstar Global Markets Index	4.00	-2.04	8.22	23.87	-9.82

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AS OF YEAR-END	DHCM	GLOBAL COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)	
		Assets Under Management	Number of Accounts	Assets Under Management (Gross of Fees)	Global Composite	Morningstar Global Markets Index
2018	\$19.1B	5 or fewer	\$14.7M	NA ¹	12.62%	10.55%
2017	22.3B	5 or fewer	2.2M	NA ¹	11.56%	10.26
2016	19.4B	5 or fewer	1.7M	NA ¹	11.66	10.98
2015	16.8B	5 or fewer	1.5M	NA ¹	NA ²	NA ²
2014	15.7B	5 or fewer	1.6M	NA ¹	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 January 2018.



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