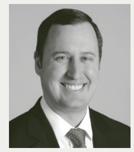
Diamond Hill Financial Long-Short Fund Commentary

As of December 31, 2018

The Financial Long-Short Fund decreased 16.96% (Class I) during the quarter, compared to a 12.50% decrease in the long-only Russell 3000 Financials Index and a 9.91% decrease in the blended benchmark (80% Russell 3000 Financials Index/20% ICE Bank of America Merrill Lynch U.S. Treasury Bill 0-3 Month Index).

TEAM



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The Russell 3000 Financials Index (-12.5%) outperformed the broader Russell 3000 Index (-14.3%) during the fourth quarter, though the weakness is notable. Asset managers, consumer lenders, and banks were relative underperformers while property and casualty insurers and REITs were less weak. Large-cap banks suffered the worst quarter since 2009 and all of the financial indices felt significant pressure. While 2018 was challenging for financial stocks, the last three months of the year saw most of the underperformance as volatility spiked and investors focused on the level of interest rates, the shape of the yield curve, and the health of the U.S. and global economies.

Volatility, as measured by the CBOE VIX Index,* spiked by nearly two-thirds during the fourth quarter and investors sold risk assets on the fear that the U.S. (and global) economy is reaching the end of the economic cycle. The balance sheets of the U.S. Federal Reserve and the European Central Bank, which increased during the "quantitative easing" programs of the last decade, are now facing "quantitative tightening" programs (i.e. reduced bond buying, run-off in holdings) and rising interest rates. The ultimate impact on market liquidity is not yet known but markets endured a downward repricing in equities and credit as investors increasingly focus on the chance of a policy mistake in which the central bank tightens too much and ultimately tips the economy into a recession. A fall in value for risk assets has a tendency to feed on itself and given the level of corporate debt and system-wide leverage accumulated over the past decade, investors exhibited skittishness during the quarter.

The December Federal Open Market Committee (FOMC) meeting saw the Federal Reserve raise short-term interest rates for the fourth time in 2018, bringing the federal funds rate to between 2.25% and 2.5%, the ninth such rise going back to December 2015. The yield on the 10-year U.S. Treasury, which ended the third quarter at 3.05%, touched 3.23% in November before falling during December to end the year at 2.68%, its lowest level in nearly a year. Federal Reserve Chairman Powell indicated that Fed officials expected the economy would be strong enough next year to justify two more rate increases in 2019, which is less than they had anticipated at the last FOMC meeting a few months ago as the softening global economy and market volatility now seem less supportive of growth. Investors began to question the impetus for rate increases in 2019 as financial conditions have tightened, stocks have fallen, and yields on corporate debt have widened relative to those on safer government bonds. The spread between the 2-year U.S. Treasury and the 10-year U.S. Treasury was the narrowest since the financial crisis, typically a sign of weakening sentiment about the prospects for long-term growth. The yield curve remains stubbornly flat, which is challenging for the net interest margins of most financial companies.

While tighter financial conditions haven't yet shown up in most economic data, analysts are lowering forecasts for 2019 U.S. GDP growth. Goldman Sachs recently revised their U.S. growth forecast downward for the first half of 2019 to 2% from 2.4% and it expects 1.8% growth in the second half. Morgan Stanley economists expect the economy to grow 1.7% in 2019, the slowest pace since 2012. The oil market, typically a harbinger of global growth, is showing signs of weakness. U.S. crude prices fell 38% from the end of September through the end of December, the largest quarterly slide since the final months of 2014, as fears of a global growth slowdown take hold.

As we enter 2019, valuations are more compelling than we have seen in quite some time and earnings and profitability for most segments of the financial sector are strong. We believe that tighter financial conditions, rising volatility and various geopolitical risks (trade wars, growing protectionism, Brexit, etc.) make stock selection ever more important. We continue to find opportunity in high-quality companies that fit our long-term investment strategy based on fundamental research and discount to intrinsic value.

DIAMOND HILL | FUNDS

Best Performers

Long Portfolio

- 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.

- Insurance broker **Willis Towers Watson PLC** outperformed after the company reported strong earnings, including better-than-expected organic revenue growth.

Short Portfolio

- Shares of regional bank **Westamerica Bancorp** and **Commerce Bancshares, Inc.**, declined along with the broader decline in banking stocks during the quarter.

- Shares of money and payment services provider **Western Union Co.** declined as fundamentals remain challenged in the global remittance market. Recent quarters have seen the company reduce pricing in several key markets, and management noted softness in domestic operations due to increased competition.

PERIOD AND AVERAGE ANNUAL TOTAL RETURNS AS OF DECEMBER 31, 2018

	SINCE INCEPTION[1] (8/1/97)	10-YR	5-YR	3-YR	1-YR	YTD	4Q18	EXPENSE RATIO[2]
RETURNS AT NAV (WITHOUT SALES CHARGE)								
Class I	6.44%	9.73%	2.62%	3.17%	-17.60%	-17.60%	-16.96%	1.57%
BENCHMARK								
Russell 3000 Financials Index	5.39	11.45	8.29	9.05	-8.35	-8.35	-12.50	—
80%/20% Blended Index	5.05	9.47	6.84	7.54	-6.24	-6.24	-9.91	—

* The CBOE VIX Index is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500® Index (SPXSM) call and put options.

[1] The Fund was long-only from inception through April 2006.

[2] Includes dividend expense relating to short sales. If dividend expenses relating to short sales were excluded, the Expense Ratio for the Financial Long-Short Fund would have been 1.12% for Class I.

Risk Disclosure: The Fund uses short selling which incurs significant additional risk. Theoretically, stocks sold short have the risk of unlimited losses. There are specialized risks associated with small capitalization issues, such as market illiquidity and greater market volatility, than large capitalization issues. Investing in non-U.S. securities may entail risk due to foreign economic and political developments; this risk may be higher when investing in emerging markets. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns.

The views expressed are those of the portfolio managers as of December 31, 2018, are subject to change and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice.

The performance data quoted represents past performance; past performance does not guarantee future results. *The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the most recent month-end, within 7 business days, at diamond-hill.com.*

Performance returns assume reinvestment of all distributions. Returns for periods less than one year are not annualized. Class I shares include Class A share performance achieved prior to the creation of Class I. Class I shares have no sales charge.

Fund holdings subject to change without notice.

The Russell 3000 Financials Index consists of Russell 3000 companies involved in banking, mortgage finance, consumer finance, specialized finance, investment banking and brokerage, asset management and custody, corporate lending, insurance, financial investments, and real estate, including REITS. The blended index represents a 80% weighting of the Russell 3000 Financials Index and a 20% weighting of the ICE BofA Merrill Lynch U.S. T-Bill 0-3 Month Index. The ICE BofA Merrill Lynch U.S. T-Bill 0-3 Month Index is comprised of U.S. dollar denominated U.S. Treasury Bills with a term to maturity of less than 3 months. These indexes do not incur fees and expenses (which would lower the return) and are not available for direct investment.

The index data referenced herein is the property of ICE Data Indices, LLC, its affiliates ("ICE Data") and/or its third party suppliers and has been licensed for use by Diamond Hill Capital Management, Inc. ICE Data and its third party suppliers accept no liability in connection with its use. See diamond-hill.com for a full copy of the disclaimer. ICE Data was not involved in the creation of the blended index.

An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other important information about the Fund(s) can be found in the Fund's(s) prospectus or summary prospectus which can be obtained at diamond-hill.com or by calling 888.226.5595. Please read the prospectus or summary prospectus carefully before investing. The Diamond Hill Funds are distributed by Foreside Financial Services, LLC (Member FINRA). Diamond Hill Capital Management, Inc., a registered investment adviser, serves as Investment Adviser to the Diamond Hill Funds and is paid a fee for its services. Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.

Worst Performers

Long Portfolio

- 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 **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 **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.

- 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.

- Business services company **First Data Corp. (Cl A)** underperformed. Investors were expecting more optimistic results in the company's Global Business Solutions North America business, as management is attempting to turn the segment from a share loser to a potential share gainer. Despite the volatility in share price, the company continues to grow revenue and expand margins.

Short Portfolio

- The five worst performers were long positions.

New Positions

Long Portfolio

- We initiated a position in **RenaissanceRe Holdings Ltd.**, a Bermudian reinsurance company with a long track record of value creation and strong underwriting.

- We initiated a position in real estate investment trust **American Homes 4 Rent (Cl A)** following weakness in the shares after it reported disappointing third-quarter earnings. The company is the second-largest owner of single-family, for-rent properties, and should benefit from both scale the continued shift to renting as home ownership remains expensive and people want flexible living arrangements. Large players in emerging property types can generally benefit from their unique, difficult-to-replicate platforms and earn above-average returns. Although American Homes 4 Rent hasn't experienced a market downturn, we believe the risk-return from both internal and external growth is attractive over the long term.

- We initiated a position in storage company **Shurgard Self Storage S.A.** following its IPO; Shurgard is the largest pan-European storage company and should benefit from growth of the nascent European self-storage market. Shurgard is the market leader and biggest player in many of its markets and should be able to post strong long-term internal and external growth.

Short Portfolio

- **First Financial Bankshares, Inc.** is a well-run regional bank. While it is a solid operator, we initiated a short position as the valuation was well ahead of its earnings growth outlook.

Eliminated Positions

Long Portfolio

- We eliminated our position in traditional asset management company **Franklin Resources, Inc.** to redeploy the capital into more attractive opportunities.

- Shares of insurance broker **Willis Towers Watson PLC** were sold to fund positions in more discounted companies.

Short Portfolio

- We covered our short position in financial services company **First American Financial Corp.** following significant share price declines.

MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF DECEMBER 31, 2018

American Homes 4 Rent (Cl A)	1.6%	Long	**Mr. Cooper Group, Inc.**	5.7%	Long
Bank OZK	3.8	Long	**RenaissanceRe Holdings Ltd.**	1.8	Long
Commerce Bancshares, Inc.	(1.1)	Short	**Shurgard Self Storage S.A.**	0.7	Long
Discover Financial Services	5.0	Long	**SVB Financial Group**	3.9	Long
First American Financial Corp.	0.0	Short	**Westamerica Bancorp**	(3.0)	Short
First Data Corp. (Cl A)	2.9	Long	**Western Union Co.**	(1.8)	Short
First Financial Bankshares, Inc.	(0.5)	Short	**Willis Towers Watson PLC**	0.0	Long
Franklin Resources, Inc.	0.0	Long			

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.