

Diamond Hill Research Opportunities Fund Commentary As of December 31, 2018

The Research Opportunities Fund decreased 16.13% (Class I) during the quarter, compared to a 14.30% decrease in the long-only Russell 3000 Index and a 10.67% decrease in the blended benchmark (75% Russell 3000 Index/25% ICE Bank of America Merrill Lynch U.S. Treasury Bill 0-3 Month Index).

The Fund's long portfolio detracted from absolute return, led by the financials, health care, consumer discretionary, and industrials sectors. The short portfolio modestly offset these decreases, with contributions to absolute return from holdings in the consumer discretionary and health care sectors.

The Fund's underperformance relative to the long-only benchmark was primarily driven by security selection in the financials and health care sectors, and a combination of security selection and an overweight position in the consumer discretionary sector.

The Fund's net exposure was 84.9% at the end of the quarter.

Best Performers

Long Portfolio

- 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.

Short Portfolio

- Shares of internet postage solutions company **Stamps.com, Inc.** declined as the market began to price in the potential for the United States Postal Service (USPS) to crack down on the company's abuse of the USPS reseller program following the presentation of a USPS Office of Inspector General report to Congress. There are indications that the report is critical of the reseller program in general, and specifically mentions the discounts offered to existing USPS customers which results in significant lost revenue. We continue to believe that the loophole in the reseller program that Stamps.com has been exploiting will be closed soon, resulting in significant downside for the stock.

TEAM

The Research Opportunities Fund is co-managed by Diamond Hill Research Analysts.

- Shares of consumer electronics retailer **Best Buy Co., Inc.** declined amid slower growth that has led to multiple contraction. With difficult comparable store sales ahead, investors are starting to question what slower growth means for profitability, considering the company still faces material cost headwinds.
- Shares of postsecondary education services company **Grand Canyon Education, Inc.** declined amid decelerating enrollment metrics and concerns about the company's strategy to grow its on-line service provider business. The recent acquisition of Orbis Education Services, a provider of on-line health care education services, was also not well-received by investors.
- Shares of molecular diagnostic company **Myriad Genetics, Inc.** declined after the company experienced several setbacks related to a new diagnostic test to help doctors determine which anti-depressant drug will be best for patients. Although this is an unmet medical need, the data to support this test is not particularly compelling and we don't feel the test will be as successful as other investors believe.

Worst Performers

Long Portfolio

- Pharmaceutical company **Endo International PLC** underperformed after reporting good but unspectacular clinical results for its key franchise, Xiaflex, in the cellulite indication. Investors were also concerned about potential opioid liabilities and the company's balance sheet. We believe there is room for potential settlement on the issue that would come in favorably relative to existing expectations.
- 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 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.



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- Pharmaceutical company **Allergan PLC** underperformed despite reporting solid financial results, with both sales and earnings ahead of expectations. Management failed to follow through on a previously discussed potential sale of Women's Health and Anti-infectives businesses, and the company had to recall certain breast implants from the European market for safety reasons. We do not believe the recall will have a material impact on financial results, but it will increase pressure on management to execute on strategic initiatives in the coming quarters.
- 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.

Short Portfolio

- The five worst performers were long positions.

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

	SINCE INCEPTION (3/31/09)	5-YR	3-YR	1-YR	YTD	4Q18	EXPENSE RATIO ¹
RETURNS AT NAV (WITHOUT SALES CHARGE)							
Class I	10.46%	2.02%	2.77%	-12.86%	-12.86%	-16.13%	1.51%
BENCHMARK							
Russell 3000 Index	14.88	7.91	8.97	-5.24	-5.24	-14.30	—
75%/25% Blended Index	11.25	6.16	7.05	-3.31	-3.31	-10.67	—

¹Includes dividend expense relating to short sales. If dividend expenses relating to short sales were excluded, the Expense Ratio for the Research Opportunities 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.

The quoted performance for the Fund reflects the past performance of the Diamond Hill Research Partners, L.P. (the "Research Partnership"), a private fund managed with full investment authority by the fund's Adviser. The Fund is managed in all material respects in a manner equivalent to the management of the predecessor unregistered fund. The assets of the Research Partnership were converted into assets of the fund prior to commencement of operation of the fund. The performance of the Research Partnership has been restated to reflect the net expenses and maximum applicable sales charge of the fund for its initial years of investment operations. The Research Partnership was not registered under the Investment Company Act of 1940 and therefore was not subject to certain investment restrictions imposed by the 1940 Act. If the Research Partnership had been registered under the 1940 Act, its performance may have been adversely affected. Performance is measured from March 31, 2009, the inception of the Research Partnership and is not the performance of the fund. The assets of the Research Partnership were converted, based on their value on December 30, 2011, into assets of the fund prior to commencement of operations of the fund. The Research Partnership's past performance is not necessarily an indication of how the fund will perform in the future either before or after taxes.

Performance returns assume reinvestment of all distributions. Returns for periods less than one year are not annualized. Class I shares have no sales charge.

Fund holdings subject to change without notice.

The Russell 3000 Index is an unmanaged market capitalization-weighted index comprised of the 3,000 largest U.S. companies by total market capitalization. The blended index represents a 75% weighting of the Russell 3000 Index and a 25% 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.

New Positions

Long Portfolio

- We initiated a position in real estate investment trust **American Homes 4 Rent (CI 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 its 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 is attractive from both internal and external growth over the long term.
- We initiated a position in consumer electronics manufacturer **Apple, Inc.**, as its shares were trading at a significant discount to our estimate of intrinsic value. Apple's premium brand image and strong positioning in the smartphone and other consumer electronics markets, coupled with its growing services business make it an attractive investment.
- We initiated a position in **Avnet, Inc.**, the largest global distributor of electronic components, as its shares were trading at a significant discount to our estimate of intrinsic value. We believe that Avnet's counter-cyclic cash flow generation, strong balance sheet, and durable business model make it an attractive investment.
- We initiated a position in Spanish bank **Banco Bilbao Vizcaya Argentaria S.A.** In addition to its market-leading position in Spain, the firm has significant presence in several high-growth, high-return markets around the world. BBVA is also an early adopter of banking digitalization and has invested in upgrading its technology and infrastructure; therefore, the company is very well-positioned to fend off any potential threat from banking disintermediation longer term.
- We added shares of networking and communications company **CommScope Holding Co., Inc.** which were trading at a deep discount to our intrinsic value estimate and subsequently eliminated the position after the company announced an ill-advised acquisition of Arris International.
- **Copa Holdings S.A. (CI A)** 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 companies **Devon Energy Corp.** and **Noble Energy, Inc.**, and subsequently eliminated the positions 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 a position in Thailand bank **Kasikornbank PLC.** KBANK is a privately run, highly-profitable bank with a strong balance sheet and organic capital generation capabilities that we believe is well-positioned for the eventual recovery of the interest rate cycle in Thailand.
- We initiated a position in fast food chain **McDonald's Corp.** which is in the early stages of a capital spending project we believe will result in better sales and increase McDonald's market share leadership in the quick service restaurant industry. McDonald's and its franchisees outside of the U.S. have produced outstanding results from a similar restaurant initiative which started several years ago.
- We initiated a position in **TE Connectivity Ltd.**, a manufacturer of connectors and sensors for automotive, industrial, and communications applications. A majority of TE's product portfolio is focused on long cycle, harsh environment, and growth-oriented applications. We believe that the market is underestimating the long-term earnings potential of the business.
- We initiated a position in diversified media and entertainment company **Twenty-First Century Fox, Inc. (CI B)** as we believe the shares offer an attractive entry point into Disney and that the stub appears relatively inexpensive.
- Managed care services provider **WellCare Health Plans, Inc.** is a government health insurer. We are familiar with management from their roles in prior companies and have admired WellCare's turnaround over the past several years. The broader market pullback afforded us an opportunity to establish a position in what we believe to be a company that is ideally positioned to capitalize on demographic and political trends.

Short Portfolio

- **Cheesecake Factory, Inc.** is a successful upscale casual dining concept that experienced nearly two decades of above average unit growth and achieved a cult-like following due to its eclectic menu, generous portion sizes, and moderate prices. Its restaurant growth came to a standstill during the financial crisis and growth has remained slow due to difficult industry dynamics (food-at-home deflation, changing consumer preferences, increased competition, etc.). We expect traffic declines to accelerate at

Cheesecake, exacerbated by management's need to increase prices to maintain margin along with changing consumer preferences and shopping mall dynamics, resulting in earnings declines and a lower valuation.

- We initiated a short position in grocery store operator **Kroger Co.**, which due to intense industry pressures, is being forced to invest heavily in ecommerce and delivery capabilities that ultimately will result in lower profitability and returns over time.
- **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.
- **Kohl's Corp.**'s department store business model is dated and consumer demand continues to shift online and to more price-effective distribution channels. We initiated a short position in the company, which has new management and is implementing a new business strategy that we believe is fundamentally flawed in the long term.
- We initiated a short position in health care diagnostics and research company **IQVIA Holdings, Inc.** which is trading at a premium to our estimate of intrinsic value. We believe the market forces driving the contract research organization industry are cyclical and expect growth to moderate when the cycle turns. We also expect industry competition to intensify and that IQVIA's top-line growth and operating leverage will come under pressure over time.
- We initiated a short position in chemical company **LyondellBasell Industries N.V.** and covered it when the share price dipped below our estimate of intrinsic value.

Eliminated Positions

Long Portfolio

- We sold our shares of communications services provider **BT Group PLC** and banking and financial services company **Popular, Inc.** to fund more attractive opportunities.
- 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 eliminated our position in telecommunications company **Frontier Communications Corp. 8.5% due 2026** to fund more attractive investment opportunities.
- Diversified holding company **Berkshire Hathaway, Inc. (Cl B)** was eliminated to make room for more attractive opportunities.
- We eliminated our position in information technology service provider **Check Point Software Technologies Ltd.** to fund more attractive investment opportunities.
- We sold our shares of auto parts manufacturer **Delphi Technologies PLC** as our confidence in the company declined after management cut its outlook and the CEO left after a short time with the company.
- 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.

Short Portfolio

- We covered our short position in automotive franchise operator **Lithia Motors, Inc.** as the stock fell below our estimate of intrinsic value.
- We covered our short position in recreational vehicle manufacturer **Polaris Industries, Inc.** as tariffs on imported steel and aluminum negatively impacted the company's profitability and shares fell below our estimate of intrinsic value.
- We covered our short position in oil and gas equipment and services provider **Core Laboratories N.V.** as the shares moved toward our estimate of intrinsic value.
- We covered our short positions in medical device manufacturer **Integra LifeSciences Holding Corp.** and molecular diagnostic company **Myriad Genetics, Inc.** after the shares reached our estimates of intrinsic value.
- 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

Aetna, Inc.	0.0%	Long	Frontier Communications Corp. 8.5% due 2026	0.0%	Long
Allergan PLC	2.7	Long	Garrett Motion, Inc.	0.0	Long
American Homes 4 Rent (CI A)	0.5	Long	Grand Canyon Education, Inc.	(1.1)	Short
Apple, Inc.	0.6	Long	Integra LifeSciences Holdings Corp.	0.0	Short
Avnet, Inc.	0.6	Long	IQVIA Holdings, Inc.	(0.5)	Short
Banco Bilbao Vizcaya Argentaria S.A.	0.2	Long	Kasikornbank PLC	0.1	Long
Berkshire Hathaway, Inc. (CI B)	0.0	Long	Kohl's Corp.	(0.5)	Short
Best Buy Co., Inc.	(0.4)	Short	Kroger Co.	(0.1)	Short
BioScrip, Inc.	2.6	Long	Lithia Motors, Inc. (CI A)	0.0	Short
BT Group PLC	0.0	Long	LyondellBasell Industries N.V.	0.0	Short
Check Point Software Technologies Ltd.	0.0	Long	McDonald's Corp.	0.3	Long
Cheesecake Factory, Inc.	(0.1)	Short	Myriad Genetics, Inc.	0.0	Short
Cimarex Energy Co.	1.7	Long	Noble Energy, Inc.	0.0	Long
CommScope Holding Co., Inc.	0.0	Long	Polaris Industries, Inc.	0.0	Short
Copa Holdings S.A. (CI A)	1.4	Long	Popular, Inc.	0.0	Long
Core Laboratories N.V.	0.0	Short	Red Rock Resorts, Inc. (CI A)	3.7	Long
CVS Health Corp.	0.8	Long	Resideo Technologies, Inc.	0.0	Long
Delphi Technologies PLC	0.0	Long	Stamps.com, Inc.	(1.3)	Short
Devon Energy Corp.	0.0	Long	TE Connectivity Ltd.	0.6	Long
Endo International PLC	1.8	Long	Twenty-First Century Fox, Inc. (CI B)	0.5	Long
First American Financial Corp.	0.0	Short	Vail Resorts, Inc.	4.3	Long
First Financial Bankshares, Inc.	(0.1)	Short	WellCare Health Plans, Inc.	0.5	Long

Mentioned securities not held in the Diamond Hill Research Opportunities Fund: Arris International PLC and Walt Disney Co.

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.