

(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.



(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

- 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

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**