

*(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.

## TEAM<sup>1</sup>



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.



<sup>1</sup> As of February 1, 2019.

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- 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

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## 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

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-Mid Cap Composite has received a Performance Examination from 12/31/05 – 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-Mid Cap Composite is comprised of discretionary fee paying non-wrap accounts managed according to the firm's Small-Mid Cap equity strategy. The strategy's investment objective is to achieve long-term capital appreciation by investing in small and medium capitalization companies selling for less than our estimate of intrinsic value. The Composite typically invests in small and medium capitalization companies which are defined as those companies with a market capitalization between \$500 million and \$10 billion (or, if greater, the maximum market capitalization of companies generally within the capitalization range of the Russell 2500 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 2500 Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 2,500 smallest companies, on a market capitalization basis, in the Russell 3000 Index. The Russell 2500 Value Index is shown as additional information. This index is an unmanaged market capitalization weighted index measuring the performance of the small and midcap value segment of the U.S. equity universe including those Russell 2500 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-Mid Cap separate accounts is as follows: First \$20,000,000 = 0.85%; Over \$20,000,000 = 0.75%. The dispersion measure is the asset weighted standard deviation of the annual portfolio returns.

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.

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