

*(closed to new investors)*

The Fund decreased 14.76% (Class I) during the quarter, compared to an 18.49% decrease in the Russell 2500 Index.

The Fund'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 Fund's outperformance relative to the Index was primarily driven by security selection and an underweight position in the health care sector, as well as the Fund'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>



## 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



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

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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.

## 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.

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

	SINCE INCEPTION (12/30/05)	10-YR	5-YR	3-YR	1-YR	YTD	4Q18	EXPENSE RATIO GROSS	NET <sup>2</sup>
RETURNS AT NAV (WITHOUT SALES CHARGE)									
<b>Class I</b>	7.58%	12.88%	4.07%	3.93%	-12.56%	-12.56%	-14.76%	0.94%	0.93%
BENCHMARK									
<b>Russell 2500 Index</b>	7.50	13.15	5.15	7.32	-10.00	-10.00	-18.49	—	—
<b>Russell 2500 Value Index</b>	6.52	11.62	4.16	6.59	-12.36	-12.36	-17.12	—	—

<sup>2</sup>The Fund may invest in another Diamond Hill Fund. Diamond Hill Capital Management, Inc. is required to permanently waive a portion of its management fee in the pro-rata amount of the management fee charged by the underlying Diamond Hill Fund.

**Risk Disclosure:** There are specialized risks associated with small capitalization issues, such as market illiquidity and greater market volatility, than large capitalization issues.

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](http://diamond-hill.com).

Performance returns assume reinvestment of all distributions. Returns for periods less than one year are not annualized. These total return figures may reflect the waiver of a portion of a Fund's advisory or administrative fees for certain periods. Without such waiver of fees, the total returns would have been lower. Class I shares have no sales charge.

Fund holdings subject to change without notice.

The Russell 2500 Index is an unmanaged market capitalization-weighted index comprised of the smallest 2,500 companies by market capitalization in the Russell 3000 Index, which is comprised of the 3,000 largest U.S. companies by total market capitalization. The Russell 2500 Value 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. These indices do not incur fees and expenses (which would lower the return) and are not available for direct investment.

**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](http://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.**

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- **WPX Energy, Inc. (CI A)** is a high-growth oil and gas exploration and production company with very attractive assets in the Bakken and Delaware Basin. 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.

## MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF DECEMBER 31, 2018

American Campus Communities, Inc.	2.6%	Red Rock Resorts, Inc. (CI A)	2.7%
B&G Foods, Inc.	1.7	RenaissanceRe Holdings Ltd.	1.6
Cal-Maine Foods, Inc.	0.5	Stericycle, Inc.	0.7
Cimarex Energy Co.	3.0	SVB Financial Group	1.5
Colfax Corp.	1.3	Welbilt, Inc.	0.4
CommScope Holding Co., Inc.	0.0	Willis Towers Watson PLC	4.3
Goodyear Tire & Rubber Co.	0.0	Worldpay, Inc. (CI A)	2.5
LifePoint Health, Inc.	0.0	WPX Energy, Inc. (CI A)	1.1
Orthofix Medical, Inc.	0.0		

Mentioned securities not held in the Diamond Hill Small-Mid Cap Fund: Apollo Global Management LLC and Arris International PLC.

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](mailto:info@diamond-hill.com).