

The Composite increased 1.53%, net of fees, during the quarter compared to a 3.02% increase in the Russell 3000 Index and a 1.29% increase in the Russell 3000 Value Index.

The Composite's holdings in the health care, financials, and information technology sectors provided the largest contribution to absolute return, while the energy sector detracted.

The Composite's underperformance relative to the Russell 3000 Index was primarily driven by security selection in the energy, industrials, and consumer discretionary sectors as well as an underweight allocation to health care. Security selection in the health care and telecommunication sectors and an underweight allocation to energy were positive contributors to relative return.

Best Performers

- Health care products manufacturer **Abbott Laboratories** reported solid first-quarter results and is well-positioned to benefit from its recent St. Jude acquisition. Abbott also announced it will purchase Alere at a lower price than originally indicated, with the deal expected to close later this year.
- Shares of mortgage servicing company **Nationstar Mortgage Holdings, Inc.** outperformed as expectations about the health of the mortgage refinancing market improved on the pullback in interest rates.
- Shares of homebuilder **NVR, Inc.** rose after the company reported good quarterly results as increased demand, low supply of existing homes, and higher prices have been providing a favorable environment for homebuilders. The company also continues to be one of the most efficient operators in the industry.
- Health care benefits company **Aetna, Inc.** revealed its standalone outlook, which includes a mid-teens growth rate for its Medicare Advantage business. The broader managed care group has also done well as investors are beginning to recognize the potential upside from the repeal of Affordable Care Act taxes, public exchange exits, tax reform, and rising interest rates.
- Shares of airline operator **United Continental Holdings, Inc.** rose as the revenues continue to improve for the airline industry, with United experiencing encouraging initial results on its revenue initiatives.

PORTFOLIO MANAGEMENT



Austin Hawley, CFA
Portfolio Manager



Rick Snowden, CFA
Portfolio Manager

Worst Performers

- Shares of diversified media and entertainment company **Twenty-First Century Fox, Inc. (CI B)** fell as a result of increased concerns around advertising declines and cord-cutting acceleration. Despite this dynamic, Fox reported solid quarterly results that were driven by its cable and broadcast segments.
- Freight transportation management company **Hub Group, Inc. (CI A)** reduced full-year guidance as it became clear that intermodal pricing for 2017 would be well below prior expectations, largely due to the continued oversupply of capacity in the competing truckload market. We believe this issue is transitory and expect a more favorable pricing environment in 2018 as new regulations help constrain the supply of truckload capacity.
- Shares of regional bank **BankUnited, Inc.** declined amid broader concerns surrounding delays in tax and regulatory reforms. Additionally, the company's first-quarter results called into question management's loan growth guidance for the full year.
- Media and communications company **Liberty Global PLC (CI A)** reduced 2017 guidance based on slowing expansion and competitive pressures in the company's U.K. segment.
- Shares of oil and gas exploration and production company **Cimarex Energy Co.** underperformed amid a faster-than-expected increase in shale drilling activity and a large rebound in oil production from Libya and Nigeria. These factors have increased the risk that oil inventories may not normalize in the near future.

New Positions

We initiated a position in telecommunication services provider **Cincinnati Bell, Inc.**, whose management team has completely reshaped the business by selling non-core assets, reducing net debt, and investing in modern fiber networks. We expect free cash flow to expand meaningfully over the next several years. We purchased shares of shipping and transportation company **Kirby Corp.**, the largest U.S. tank barge operator. The company is well-positioned to benefit from increasing petrochemical plant capacity in the United States. Management has a strong track



record of opportunistic capital allocation and the current industry environment could provide attractive M&A opportunities. We took advantage of a recent decline in the stock price to purchase shares of beverage manufacturer **Molson Coors Brewing Co. (CIB)**, the second largest brewer in North America. We believe the company's recent acquisition of SAB Miller's stake in Miller Coors will result in significant margin expansion over the next few years. **Validus Holdings Ltd.** is a Bermudian reinsurance company with a good track record of underwriting and value creation. Validus is well-diversified and has built strong operating platforms. We believe the company will continue creating value for shareholders despite a challenging global reinsurance market. **Verisk Analytics, Inc.** is a specialized data and analytics provider that serves customers in the insurance, energy, and financial services industries. We believe Verisk possesses unique data assets that allow it to provide high and recurring value to its customers and that it has a large cross-selling opportunity over the next several years.

Eliminated Positions

We sold our position in industrial manufacturing and engineering company **Colfax Corp.** as the share price approached our estimate of intrinsic value. We eliminated our position in insurance broker **Willis Towers Watson PLC** and reallocated the capital to more attractive opportunities.

Diamond Hill All Cap Select Strategy

As of June 30, 2017

PERIOD & ANNUALIZED RETURNS (%)

Inception Date: June 30, 2000

| | SINCE INCEPTION | 10-YR | 5-YR | 3-YR | 1-YR | YTD | 2Q17 |
|--------------------------|--------------------|-------|-------|------|-------|------|------|
| ALL CAP SELECT COMPOSITE | | | | | | | |
| Gross of Fees | 10.70 | 8.14 | 15.83 | 7.32 | 26.03 | 6.90 | 1.68 |
| Net of Fees | 9.96 | 7.48 | 15.22 | 6.75 | 25.35 | 6.59 | 1.53 |
| BENCHMARKS | | | | | | | |
| Russell 3000 Index | 5.48 | 7.26 | 14.58 | 9.10 | 18.51 | 8.93 | 3.02 |
| Russell 3000 Value Index | 7.33 | 5.59 | 13.89 | 7.32 | 16.21 | 4.32 | 1.29 |

CALENDAR YEAR RETURNS (%)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------------------|-------|--------|-------|-------|-------|-------|-------|-------|-------|-------|
| ALL CAP SELECT COMPOSITE | | | | | | | | | | |
| Gross of Fees | 6.57 | -32.90 | 34.83 | 11.51 | -0.58 | 12.70 | 45.86 | 12.60 | -0.48 | 10.84 |
| Net of Fees | 5.75 | -33.39 | 33.89 | 10.74 | -1.21 | 12.00 | 45.11 | 12.07 | -1.01 | 10.22 |
| BENCHMARKS | | | | | | | | | | |
| Russell 3000 Index | 5.14 | -37.31 | 28.34 | 16.93 | 1.03 | 16.42 | 33.55 | 12.56 | 0.48 | 12.74 |
| Russell 3000 Value Index | -1.01 | -36.25 | 19.76 | 16.23 | -0.10 | 17.55 | 32.69 | 12.70 | -4.13 | 18.40 |

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 – 3/31/17. 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 All Cap Select Composite has received a Performance Examination from 6/30/00 – 3/31/17. 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. 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 All Cap Select Composite is comprised of discretionary fee paying non-wrap accounts managed according to the firm's All Cap Select equity strategy. The strategy's investment objective is to achieve long-term capital appreciation by investing in companies selling for less than our estimate of intrinsic value. The strategy typically invests in securities with a market capitalization of \$500 million or greater. The strategy's Adviser anticipates that each of the strategy's investments will also be held in one of the other Diamond Hill strategies. 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 3000 Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. The Russell 3000 Value Index is shown as additional information. This index is an unmanaged market-capitalization weighted index measuring the performance of the broad value segment of the U.S. equity universe including those Russell 3000 Index companies with lower expected growth values. 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 All Cap Select separate accounts is as follows: First \$20,000,000 = 0.85%; Over \$20,000,000 = 0.70%.

| AS OF YEAR-END | DHCM | ALL CAP SELECT COMPOSITE | | | 3-YR STANDARD DEVIATION (GROSS OF FEES) | | |
|-------------------|---------|----------------------------|-----------------------|----------------------------|--|-----------------------------|-----------------------|
| | | Assets Under Management | Number of Accounts | Assets Under Management | Dispersion (Gross of Fees) | All Cap Select Composite | Russell 3000 Index |
| 2016 | \$19.4B | 13 | \$324.6M | 0.28% | 12.04% | 10.88% | 10.97% |
| 2015 | 16.8B | 13 | 466.5M | 0.16 | 11.66 | 10.58 | 10.74 |
| 2014 | 15.7B | 13 | 374.9M | 0.07 | 10.56 | 9.29 | 9.39 |
| 2013 | 12.2B | 14 | 277.8M | 0.24 | 13.39 | 12.53 | 12.90 |
| 2012 | 9.4B | 18 | 227.2M | 0.16 | 14.48 | 15.73 | 15.81 |
| 2011 | 8.7B | 26 | 284.9M | 0.42 | 18.81 | 19.35 | 21.04 |
| 2010 | 8.6B | 28 | 189.0M | 0.48 | NA | NA | NA |
| 2009 | 6.3B | 29 | 155.0M | 0.97 | NA | NA | NA |
| 2008 | 4.5B | 35 | 83.3M | 0.82 | NA | NA | NA |
| 2007 | 4.4B | 36 | 102.2M | 0.32 | NA | NA | NA |

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. The Global Investment Performance Standards are a trademark of CFA Institute. CFA Institute has not been involved in the preparation or review of this report/advertisement.

NA = Not Applicable

This composite was created in October 2013.

As of February 28, 2017, the Select Composite was renamed the All Cap Select Composite.