

The Fund increased 2.61% (Class I) during the quarter, compared to a 3.90% increase in the long-only Russell 3000 Financials Index and 3.17% increase in the blended benchmark (80% Russell 3000 Financials Index / 20% BofA Merrill Lynch U.S. T-Bill 0-3 Month Index).

The Russell 3000 Financials Index lagged the broader Russell 3000 until the final week of the quarter when the Federal Reserve released the results of the Comprehensive Capital Analysis and Review (CCAR) for large banks. The annual regulatory evaluation included better-than-expected capital return plans at many firms. Favorable CCAR outcomes suggest some regulatory relief for the largest financial institutions, which helped to offset ongoing challenges from the macro environment during the quarter including low interest rates, tepid loan growth, and a flattening yield curve.

The largest industries in the Financials Index – banks, insurance, and real estate – all posted low single-digit returns for the quarter. Consumer finance companies, including the large credit card issuers, were notably weak as investors focused on increasing credit costs following a period of robust loan growth. While we do expect some continued credit normalization, we do not foresee a period of elevated credit losses absent a meaningful change to the economic environment. With reasonable valuations and increasing capital returns to shareholders, we remain optimistic that investors in the financials sector will benefit from attractive cash yields and per-share growth over the coming years.

Best Performers

Long Portfolio

- 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 banking and financial services company **Citigroup, Inc.** outperformed as the market appears to be increasingly comfortable with the company's excess capital position along with its ability to return capital via dividends and share repurchases.



PORTFOLIO MANAGEMENT



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- Shares of real estate investment trust **Colony NorthStar, Inc. (CI A)** rallied in the first full quarter following the closing of the company's three-party merger. The combined company's asset sales, fundraising, and share buybacks were ahead of expectations, and we continue to believe that solid execution and fundraising should help the company's long-term earnings growth and valuation.
- Real estate investment company **Jones Lang LaSalle, Inc.** has benefited from improved investor sentiment and better-than-expected quarterly results following a difficult 2016, which was characterized by lower investment management fees and slowing transaction volume.
- Shares of asset management firm **Franklin Resources, Inc.** rose as investment performance improved significantly in its flagship funds, resulting in reduced asset outflows. Given the significant overseas cash in its balance sheet, Franklin stands to benefit if the new administration is able to enact tax repatriation legislation.

Short Portfolio

- The five best performers were long positions.

Worst Performers

Long Portfolio

- 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.
- Shares of banking and payment services provider **Discover Financial Services** underperformed amid concerns around credit cards. However, U.S. consumer trends have improved recently with employment and housing remaining favorable.
- Real estate investment trust **Tanger Factory Outlet Centers, Inc.** has been impacted by poor investor sentiment around the retail industry. Many of the company's tenants have been under pressure by the shift to e-commerce. We believe its strong balance sheet, among other positive attributes, should help the company weather the storm better than peers.

- Shares of regional bank **SVB Financial Group** underperformed amid broader industry concerns surrounding delays in expected tax and regulatory reforms. Additionally, the company is more sensitive than other banks to the pullback in interest rate expectations.
- Shares of credit services company **Capital One Financial Corp.** declined amid concerns around subprime credit card and auto loans. However, consumer trends have improved over the last few months as employment and housing remain favorable.

Short Portfolio

- The five worst performers were long positions.

New Positions

We did not initiate any long or short positions during the quarter.

Eliminated Positions

In the long portfolio, we eliminated our position in investment manager **Fortress Investment Group LLC (CIA)** as the shares approached SoftBank Group's acquisition price. We also eliminated our position in property and casualty insurance company **ProAssurance Corp.** as the shares approached our estimate of intrinsic value.

We did not eliminate any short positions.

PERIOD AND AVERAGE ANNUAL TOTAL RETURNS AS OF JUNE 30, 2017

	SINCE INCEPTION ² (8/1/97)	10-YR	5-YR	3-YR	1-YR	YTD	2Q17	EXPENSE RATIO ¹	
								GROSS	NET
RETURNS AT NAV (WITHOUT SALES CHARGE)									
Class A	7.45%	2.41%	14.48%	7.40%	36.62%	4.79%	2.57%	1.92%	1.92%
Class C	6.68	1.62	13.62	6.56	35.52	4.42	2.36	2.67	2.67
Class I	7.64	2.74	14.77	7.67	36.97	4.92	2.61	1.62	1.62
BENCHMARK									
Russell 3000 Financials Index	5.67	2.16	16.78	11.56	27.57	7.03	3.90	—	—
80%/20% Blended Index	5.29	2.25	13.38	9.34	21.76	5.69	3.17	—	—
RETURNS AT POP (WITH SALES CHARGE)									
Class A	7.18	1.88	13.31	5.57	29.80	-0.43	-2.57	1.92	1.92
Class C	6.68	1.62	13.62	6.56	34.52	3.42	1.36	2.67	2.67

¹ Includes dividend expense relating to short sales. If dividend expenses relating to short sales were excluded, the Expense Ratio for the Financial Long-Short Fund would have been 1.43% for Class A, 2.18% for Class C, and 1.13% for Class I.

² The Fund was long-only from inception through April 2006.

Risk Disclosure: The Fund uses short selling which incurs significant additional risk. Theoretically, stocks sold short have the risk of unlimited losses. Overall equity market risks may affect the value of the fund.

The views expressed are those of the portfolio managers as of June 30, 2017, 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.

Performance returns assume reinvestment of all distributions. Returns for periods less than one year are not annualized. Class C and Class I shares include Class A share performance achieved prior to the creation of Class C and Class I. The returns at POP reflect the maximum sales charge applicable to each class. The maximum sales charge for A shares is 5.00%; C shares have a maximum contingent deferred sales charge (CDSC) of 1.00% for redemptions within the first year of purchase; I shares have no sales charge.

Fund holdings subject to change without notice.

The Russell 3000 Financials Index consists of Russell 3000 companies involved in banking, mortgage finance, consumer finance, specialized finance, investment banking and brokerage, asset management and custody, corporate lending, insurance, financial investments, and real estate, including REITS. The blended index represents a 80% weighting of the Russell 3000 Financials Index and a 20% weighting of the BofA Merrill Lynch U.S. T-Bill 0-3 Month Index. The 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.

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 BHIL Distributors, 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.

MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF JUNE 30, 2017

BankUnited, Inc.	3.8%	Long	Franklin Resources, Inc.	3.9%	Long
Capital One Financial Corp.	4.1	Long	Jones Lang LaSalle, Inc.	2.3	Long
Citigroup, Inc.	5.4	Long	Nationstar Mortgage Holdings, Inc.	6.6	Long
Colony NorthStar, Inc. (CI A)	4.2	Long	ProAssurance Corp.	0.0	Long
Discover Financial Services	4.1	Long	SVB Financial Group	3.4	Long
Fortress Investment Group LLC (CI A)	0.0	Long	Tanger Factory Outlet Centers, Inc.	1.5	Long

Mentioned securities not held in the Diamond Hill Financial Long-Short Fund: SoftBank Group, Inc.

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.