

*(closed to new investors)*

The Fund increased by 0.69% (Class I) during the quarter, compared to a 3.06% increase in the long-only Russell 1000 Index and a 1.91% increase in the blended benchmark (60% Russell 1000 Index / 40% BofA Merrill Lynch U.S. T-Bill 0-3 Month Index).

The Fund's long portfolio contributed to absolute return, while the short portfolio detracted. In the long portfolio, holdings in the financials and health care sectors were the largest contributors, while the energy sector was a detractor. In the short portfolio, the consumer discretionary and information technology sectors were the primary detractors from absolute return.

The Fund's underperformance relative to the long-only benchmark was primarily driven by security selection in the energy and consumer discretionary sectors, which was somewhat offset by our underweight allocation to energy. The Fund's net exposure at the end of the quarter was 54%.

## Best Performers

### Long Portfolio

- 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.
- 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.
- Medical diagnostic systems provider **Alere, Inc.** announced that the company finalized its merger with Abbott Laboratories.
- Shares of media and technology company **Alphabet, Inc. (CI A)** rose after the company reported strong year-over-year revenue growth and expanding margins, reflecting strength in its core advertising business including continued rapid growth in mobile search.



## PORTFOLIO MANAGEMENT



Chris Bingaman, CFA  
Portfolio Manager



Ric Dillon, CFA  
Portfolio Manager



Chuck Bath, CFA  
Asst. Portfolio Manager



Jason Downey, CFA  
Asst. Portfolio Manager

- Household durables manufacturer **Whirlpool Corp.** delivered excellent results in its North American division, with fundamentals remaining strong and the competitive environment stabilizing. Latin America and Asia produced solid results as well, though Europe remains challenged with struggling volumes and significant margin compression.

### Short Portfolio

- The five best performers were long positions.

## Worst Performers

### Long Portfolio

- 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.
- 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.

### Short Portfolio

- Shares of consumer electronics retailer **Best Buy Co., Inc.** rose after the company reported solid quarterly results and raised forward guidance. Importantly, store traffic continues to be weak.
- Shares of internet postage company **Stamps.com, Inc.** traded up despite a lack of company-specific news. The U.S. Postal Service has not yet announced any changes to its reseller program; however, our short thesis remains unchanged.
- Shares of aerospace and defense company **Boeing Co.** rose following better-than-expected announced orders during the quarter. This included initial orders for the new 737 MAX-10, many of which were upgrades from a smaller version of the MAX family rather than incremental orders.

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## New Positions

In the long portfolio, we started a position in banking and payment services provider **Discover Financial Services**, the sixth-largest credit card issuer worldwide with a focus on prime borrowers and its own card processing network. New holding **Johnson Controls International PLC** is a technology and industrial company that merged with Tyco International in 2016. We believe management will be able to realize cost-cutting synergies to drive strong earnings growth over the next few years. Furthermore, Johnson Controls should benefit from several long-term trends including more energy efficient buildings, more intelligent/connected buildings, and increasing fire safety standards in emerging markets and Europe. 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. (CI B)**, 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.

In the short portfolio, we initiated a short position in oil services provider **Core Laboratories N.V.** as we believe the company is overvalued based on end-market weakness for some of its business segments. We expect land drilling contractor **Helmerich & Payne**,

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

	SINCE INCEPTION (6/30/00) <sup>2</sup>	10-YR	5-YR	3-YR	1-YR	YTD	2Q17	EXPENSE RATIO <sup>1</sup>	
								GROSS	NET
RETURNS AT NAV (WITHOUT SALES CHARGE)									
<b>Class A</b>	6.74%	4.36%	9.33%	4.40%	15.56%	3.41%	0.59%	2.07%	2.07%
<b>Class C</b>	5.93	3.57	8.51	3.62	14.75	3.02	0.43	2.82	2.82
<b>Class I</b>	7.00	4.68	9.61	4.69	15.92	3.58	0.69	1.77	1.77
<b>Class Y</b>	6.88	4.59	9.76	4.81	15.99	3.60	0.69	1.67	1.67
BENCHMARK									
<b>Russell 1000 Index</b>	5.32	7.29	14.67	9.26	18.03	9.27	3.06	—	—
<b>60%/40% Blended Index</b>	4.08	4.83	8.76	5.68	10.73	5.62	1.91	—	—
RETURNS AT POP (WITH SALES CHARGE)									
<b>Class A</b>	6.41	3.82	8.22	2.63	9.80	-1.75	-4.45	2.07	2.07
<b>Class C</b>	5.93	3.57	8.51	3.62	13.75	2.02	-0.57	2.82	2.82

<sup>1</sup> Includes dividend expense relating to short sales. If dividend expenses relating to short sales were excluded, the Expense Ratio for the Long-Short Fund would have been 1.40% for Class A, 2.15% for Class C, 1.10% for Class I, and 1.00% for Class Y.

<sup>2</sup> The Fund was long-only from inception through June 2002.

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

Performance returns assume reinvestment of all distributions. Returns for periods less than one year are not annualized. Class C, Class I and Class Y shares include Class A share performance achieved prior to the creation of Class C, Class I and Class Y shares. 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 and Y shares have no sales charge.

Fund holdings subject to change without notice.

The Russell 1000 Index is an unmanaged market capitalization-weighted index comprised of the largest 1,000 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 blended index represents a 60% weighting of the Russell 1000 Index and a 40% 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 returns) 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 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.**

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**Inc.** to have less earnings power than in previous industry cycles as the overall end market for domestic land rigs may be constrained and the recovery may normalize at lower levels than expected. We also initiated a short position in medical equipment and technology provider **Varian Medical Systems, Inc.** Varian recently spun out Varex Imaging Corp. and the post-spinoff shares appreciated to an unwarranted premium to our estimate of intrinsic value. The company is facing an uncertain capital equipment spending market and has high expectations for its new product launch.

## Eliminated Positions

In the long portfolio, we received shares of automobile shopping services provider **Cars.com, Inc.** following the spinoff from TEGNA, Inc., which we then sold due to low confidence in the company's ability to reaccelerate revenue growth in a profitable manner. We sold our position in industrial product manufacturer **Illinois Tool Works, Inc.** and reallocated the proceeds to a more attractive opportunity.

In the short portfolio, we covered our position in lighting and semiconductor applications provider **Cree, Inc.** as the price approached our estimate of intrinsic value. We covered our short position in engine manufacturer **Cummins, Inc.** as our thesis of market share losses due to increased vertical integration and weakened industry volumes has not materialized. We covered our short position in property and casualty insurance company **Hanover Insurance Group, Inc.** as the company's fundamentals continued to outpace our expectations and it became less attractive than other opportunities. We covered our short position in networking products manufacturer **NETGEAR, Inc.** and allocated the proceeds to more attractive opportunities. We covered our short position in farm and ranch specialty retailer **Tractor Supply Co.** when the share price declined to our estimate of intrinsic value.

## MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF JUNE 30, 2017

Abbott Laboratories	3.9%	Long	Helmerich & Payne, Inc.	(0.5)%	Short
Alere, Inc.	1.2	Long	Illinois Tool Works, Inc.	0.0	Long
Alphabet, Inc. (CI A)	3.2	Long	Johnson Controls International PLC	1.0	Long
Best Buy Co., Inc.	(2.6)	Short	Kirby Corp.	0.5	Long
Boeing Co.	(2.3)	Short	Molson Coors Brewing Co. (CI B)	1.0	Long
Cars.com, Inc.	0.0	Long	NETGEAR, Inc.	0.0	Short
Cimarex Energy Co.	1.9	Long	Stamps.com, Inc.	(1.3)	Short
Citigroup, Inc.	4.0	Long	TEGNA, Inc.	0.9	Long
Core Laboratories N.V.	(0.3)	Short	Tractor Supply Co.	0.0	Short
Cree, Inc.	0.0	Short	Twenty-First Century Fox, Inc. (CI B)	1.7	Long
Cummins, Inc.	0.0	Short	Varian Medical Systems, Inc.	(0.7)	Short
Discover Financial Services	1.7	Long	Whirlpool Corp.	1.6	Long
Hanover Insurance Group, Inc.	0.0	Short			

Mentioned securities not held in the Diamond Hill Long-Short Fund: Varex Imaging Corp.

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.