

The Fund increased 3.54% (Class I) during the quarter, compared to a 3.02% increase in the long-only Russell 3000 Index and a 2.31% increase in the blended benchmark (75% Russell 3000 Index / 25% 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 health care, consumer discretionary, and information technology sectors provided the largest contribution to absolute return, while industrials detracted. In the short portfolio, positions in the consumer discretionary and information technology sectors were the primary detractors from absolute return.

The Fund's outperformance relative to the long-only benchmark was primarily driven by security selection in the health care, information technology, and consumer discretionary sectors. The Fund's underweight allocation to the energy sector also contributed to relative return, while security selection in industrials and consumer staples detracted. The Fund's net exposure was 75% at the end of the quarter, equal to the blended benchmark's 75% exposure.

## Best Performers

### Long Portfolio

- Shares of home infusion services provider **BioScrip, Inc.** increased as the company's new management team continued to execute on its recovery plan. The company terminated the majority of its contract with UnitedHealth, which was running at a negative margin.
- Shares of telecommunication services provider **Cincinnati Bell, Inc.** partially recovered from earlier declines as the company delivered steady first-quarter results and maintained full-year guidance. We expect free cash flow to steadily grow over the next five years.
- Information technology services provider **Cognizant Technology Solutions Corp. (CIA)** reported quarterly results that were consistent with the strategic plan management released in February. Additionally, revenue growth in the financial services and health care industries was encouraging.



## PORTFOLIO MANAGEMENT

The Research Opportunities Fund is co-managed by Diamond Hill Research Analysts.

- 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 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.

### Short Portfolio

- The five best performers were long positions.

## Worst Performers

### Long Portfolio

- Freight transportation management company **Hub Group, Inc. (CIA)** 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.

### Short Portfolio

- 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 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 cloud networking company **Arista Networks, Inc.** appreciated following the company's solid first-quarter results and favorable rulings related to Cisco's various patent infringement claims. We believe Arista's shares remain overvalued as the current market valuation implies an unrealistically high long-term revenue growth rate.
- 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.

## New Positions

In the long portfolio, we initiated a position in the largest global electronic equipment distributor **Avnet, Inc.**, when its shares declined below our estimate of intrinsic value due to near term challenges from consolidation in its supplier base. Despite these headwinds, we believe Avnet has a strong balance sheet and a durable business in the long term. We started a position in global financial services firm **Bank of New York Mellon Corp.** because we believe the shares do not fully reflect the benefits from increasing

interest rates, profit margin expansion, and the firm's capital return characteristics including Fed approval to return over 95% of its net income to shareholders in the form of dividends and share repurchases. We initiated a position in pharmaceutical company **Endo International PLC** which is primarily focused on generic drugs. We have confidence in the company's new management team and like its product pipeline. **Verisk Analytics, Inc.** is a specialized data and analytics provider that serves customers in the

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

	SINCE INCEPTION (3/31/09)	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>	13.41%	10.74%	4.43%	20.04%	7.93%	3.44%	2.02%	2.02%
<b>Class C</b>	12.58	9.92	3.67	19.20	7.58	3.31	2.77	2.77
<b>Class I</b>	13.72	11.03	4.73	20.42	8.14	3.54	1.72	1.72
<b>Class Y</b>	13.87	11.18	4.85	20.58	8.18	3.59	1.62	1.62
BENCHMARK								
<b>Russell 3000 Index</b>	17.07	14.58	9.10	18.51	8.93	3.02	—	—
<b>75%/25% Blended Index</b>	12.78	10.90	6.92	13.77	6.73	2.31	—	—
RETURNS AT POP (WITH SALES CHARGE)								
<b>Class A</b>	12.71	9.61	2.66	14.05	2.53	-1.74	2.02	2.02
<b>Class C</b>	12.58	9.92	3.67	18.20	6.58	2.31	2.77	2.77

<sup>1</sup>Includes dividend expense relating to short sales. If dividend expenses relating to short sales were excluded, the Expense Ratio for the Research Opportunities Fund would have been 1.43% for Class A, 2.18% for Class C, 1.13% for Class I, and 1.03% for Class Y.

**Risk Disclosure:** The Fund uses short selling which incurs significant additional risk. Theoretically, stocks sold short have the risk of unlimited losses. There are specialized risks associated with small capitalization issues, such as market illiquidity and greater market volatility, than large capitalization issues. Investing in non-U.S. securities may entail risk due to foreign economic and political developments; this risk may be higher when investing in emerging markets. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns.

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).

The quoted performance for the Fund reflects the past performance of the Diamond Hill Research Partners, L.P. (the "Research Partnership"), a private fund managed with full investment authority by the fund's Adviser. The Fund is managed in all material respects in a manner equivalent to the management of the predecessor unregistered fund. The assets of the Research Partnership were converted into assets of the fund prior to commencement of operation of the fund. The performance of the Research Partnership has been restated to reflect the net expenses and maximum applicable sales charge of the fund for its initial years of investment operations. The Research Partnership was not registered under the Investment Company Act of 1940 and therefore was not subject to certain investment restrictions imposed by the 1940 Act. If the Research Partnership had been registered under the 1940 Act, its performance may have been adversely affected. Performance is measured from March 31, 2009, the inception of the Research Partnership and is not the performance of the fund. The Research Partnership's past performance is not necessarily an indication of how the fund will perform in the future either before or after taxes.

Performance returns assume reinvestment of all distributions. Returns for periods less than one year are not annualized. 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 3000 Index is an unmanaged market capitalization-weighted index comprised of the 3,000 largest U.S. companies by total market capitalization. The blended index represents a 75% weighting of the Russell 3000 Index and a 25% 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](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.**

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.

In the short portfolio, we initiated a short position in telecommunication services provider **AT&T, Inc.** We believe the company will underperform due to elevated wireless competition, the migration of consumers from satellite pay television services, and limited growth in AT&T's fixed-line service revenue. We also initiated a short position in biotechnology company **Bioverativ, Inc.**, a recent spinoff from Biogen that is focused on hemophilia. We believe the shares are overvalued given the company has a limited pipeline and will potentially face increased competition from novel therapies that show a better therapeutic profile. 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, 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. **RPC, Inc.** is a completion services business focused on oil shale-related drilling in the southwest United States. We believe the company will face reduced profitability as the exploration and production industry improves efficiency and new entrants increase industry capacity. Finally, we initiated short positions in imaging solutions company **Varex Imaging Corp.** and medical equipment and technology provider

**Varian Medical Systems, Inc.** Varex was spun out of Varian so that each company could unlock value by focusing on its respective core businesses. We believe shares of Varex are overvalued as the company faces challenging end market conditions and high synergy expectations. Varian's post-spinoff shares appreciated to an unwarranted premium to our intrinsic value estimate. 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 eliminated the following positions to fund more attractive investments: rental and leasing services company **Aaron's, Inc.**, discount retailers **Dollar General Corp.** and **TJX Cos., Inc.**, grocery store operator **Tesco PLC**, diversified media and entertainment company **Twenty-First Century Fox, Inc. (CI B)**, cybersecurity solutions provider **Fortinet, Inc.**, networking and communications company **Juniper Networks, Inc.**, and electronics testing and measurement company **Keysight Technologies, Inc.** Specialty health insurer **Universal American Corp.** was acquired in an all-cash deal by WellCare Health Plans, Inc.

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 also 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.

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

Aaron's, Inc.	0.0%	Long	Fortinet, Inc.	0.0%	Long
Arista Networks, Inc.	(1.8)	Short	Helmerich & Payne, Inc.	(0.3)	Short
AT&T, Inc.	(0.5)	Short	Hub Group, Inc. (CI A)	4.2	Long
Avnet, Inc.	2.3	Long	Juniper Networks, Inc.	0.0	Long
Bank of New York Mellon Corp.	1.3	Long	Keysight Technologies, Inc.	0.0	Long
Best Buy Co., Inc.	(1.7)	Short	Nationstar Mortgage Holdings, Inc.	3.5	Long
BioScrip, Inc.	2.3	Long	RPC, Inc.	(0.2)	Short
Bioverativ, Inc.	(0.3)	Short	Stamps.com, Inc.	(1.6)	Short
Boeing Co.	(1.4)	Short	Tesco PLC	0.0	Long
Cincinnati Bell, Inc.	5.7	Long	TJX Cos, Inc.	0.0	Long
Cognizant Technology Solutions Corp. (CI A)	5.4	Long	Twenty-First Century Fox, Inc. (CI B)	0.0	Long
Core Laboratories N.V.	(0.2)	Short	United Continental Holdings, Inc.	5.3	Long
Cree, Inc.	0.0	Short	Universal American Corp.	0.0	Long
Cummins, Inc.	0.0	Short	Varex Imaging Corp.	(0.1)	Short
Dollar General Corp.	0.0	Long	Varian Medical Systems, Inc.	(0.4)	Short
Endo International PLC	1.1	Long	Verisk Analytics, Inc.	1.5	Long

Mentioned securities not held in the Diamond Hill Research Opportunities Fund: Biogen, Inc., Cisco Systems, Inc., UnitedHealth Group, Inc., and WellCare Health Plans, 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.