

(closed to new investors)

The Composite increased 1.05%, net of fees, during the quarter compared to a 2.13% increase in the Russell 2500 Index and a 0.32% increase in the Russell 2500 Value Index.

The Composite's holdings in the consumer discretionary, financials, and health care sectors made the largest contribution to absolute return. Holdings in the consumer staples, energy, and industrials sectors were the largest detractors from absolute return.

The Composite's underperformance relative to the Russell 2500 Index was primarily driven by security selection in the industrials and information technology sectors. An overweight allocation combined with security selection in the consumer staples sector also detracted from relative return. This was partially offset by security selection in the consumer discretionary, financials, and real estate sectors, as well as an underweight allocation to energy.

Best Performers

- Shares of rental and leasing services company **Aaron's, Inc.** rose amid a continuation of recent performance, including growth in year-over-year net income and earnings per share.
- Insurance broker **Willis Towers Watson PLC** reported solid quarterly results with organic growth across all of its businesses. The company had underperformed in recent quarters, leading to reduced expectations and a positive reaction to the most recent results.
- 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.
- Medical device manufacturer **Boston Scientific Corp.** reported excellent quarterly results despite a temporary recall for its Lotus trans-catheter aortic valve. Margins were under pressure due to the recall and new product launches, but organic growth was significantly above investor expectations.
- Shares of medical device manufacturer **Orthofix International N.V.** rose after the company reported solid quarterly results showing improved growth dynamics, particularly in its largest business. We believe the company's electro-magnetic products have the potential to further improve profitability.

PORTFOLIO MANAGEMENT



Chris Welch, CFA
Portfolio Manager



Jenny Hubbard, CFA
Asst. Portfolio Manager



Tom Schindler, CFA
Asst. Portfolio Manager

Worst Performers

- 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.
- 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.
- 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 food products manufacturer **Post Holdings, Inc.** underperformed amid a disappointing outlook for its eggs business, a higher-than-expected acquisition price for British cereal company Weetabix, and general volume weakness in the food industry.
- Digital media company **TEGNA, Inc.** reported disappointing quarterly results primarily driven by soft advertising revenue and weak results at Cars.com and CareerBuilder. The company was successful in spinning off Cars.com, but the outlook for broadcast regulatory reform appears less certain than investors previously expected.



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New Positions

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.

Eliminated Positions

Specialty health insurer **Universal American Corp.** was acquired in an all-cash deal by WellCare Health Plans, Inc. 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.

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PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2005

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	2Q17
SMALL-MID CAP COMPOSITE							
Gross of Fees	10.43	10.12	17.02	8.45	17.45	4.04	1.22
Net of Fees	9.63	9.31	16.23	7.71	16.63	3.69	1.05
BENCHMARKS							
Russell 2500 Index	8.60	7.42	14.04	6.93	19.84	5.97	2.13
Russell 2500 Value Index	7.90	6.52	13.69	6.21	18.36	1.95	0.32

CALENDAR YEAR RETURNS (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
SMALL-MID CAP COMPOSITE										
Gross of Fees	0.52	-29.38	41.71	24.74	-2.96	16.93	43.32	8.43	2.45	19.31
Net of Fees	-0.22	-29.99	40.52	23.72	-3.62	16.19	42.39	7.70	1.75	18.47
BENCHMARKS										
Russell 2500 Index	1.38	-36.79	34.39	26.71	-2.51	17.88	36.80	7.07	-2.90	17.59
Russell 2500 Value Index	-7.27	-31.99	27.68	24.82	-3.36	19.21	33.32	7.11	-5.49	25.20

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 Small-Mid Cap Composite has received a Performance Examination from 12/31/05 – 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 Small-Mid Cap Composite is comprised of discretionary fee paying non-wrap accounts managed according to the firm's Small-Mid Cap equity strategy. The strategy's investment objective is to achieve long-term capital appreciation by investing in small and medium capitalization companies selling for less than our estimate of intrinsic value. The Composite typically invests in small and medium capitalization companies which are defined as those companies with a market capitalization between \$500 million and \$10 billion (or, if greater, the maximum market capitalization of companies generally within the capitalization range of the Russell 2500 Index) at the time of purchase. 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 2500 Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 2,500 smallest companies, on a market capitalization basis, in the Russell 3000 Index. The Russell 2500 Value Index is shown as additional information. This 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. The Russell 3000 Index is an unmanaged market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. 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 Small-Mid Cap separate accounts is as follows: First \$20,000,000 = 0.95%; Over \$20,000,000 = 0.75%. 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.

AS OF YEAR-END	DHCM	SMALL-MID CAP COMPOSITE			3-YR STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Small-Mid Cap Composite	Russell 2500 Index
2016	\$19.4B	18	\$3.0B	0.05%	11.25%	13.67%	13.17%
2015	16.8B	12	1.9B	0.17	11.09	12.42	12.02
2014	15.7B	11	1.1B	0.13	11.20	11.67	11.25
2013	12.2B	9	586.7M	0.39	14.51	15.63	15.07
2012	9.4B	6	233.7M	0.10	16.13	18.97	18.41
2011	8.7B	6	189.2M	0.05	24.12	23.40	24.23
2010	8.6B	6	97.2M	0.16	NA	NA	NA
2009	6.3B	6	64.1M	1.20	NA	NA	NA
2008	4.5B	8	47.9M	0.53	NA	NA	NA
2007	4.4B	9	70.4M	0.15	NA	NA	NA

NA = Not Applicable

This composite was created in October 2013.

**Global Investment
Performance Standards**