

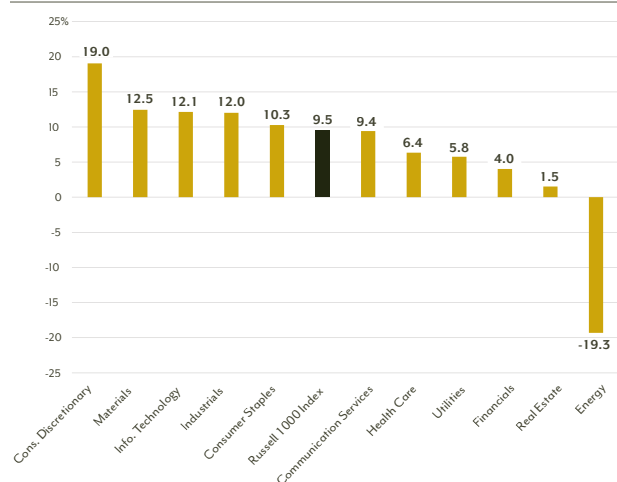
Market Commentary

After posting its best quarter ever in Q2, continued monetary stimulus, along with the prospect of additional fiscal stimulus and progress on COVID-19 treatments and vaccines, continued pushing the Russell 1000 Index higher in Q3. Despite dropping about 6% from a new all-time high in early September, the index still returned 9.5% in Q3 and is up 6.4% for the year.

Retail sales bounced back to all-time highs in August, driving market-leading returns for the consumer discretionary sector. Amazon and Tesla were responsible for more than half the sector's nearly 19% return, although a broad range of companies, including homebuilders and other housing-related businesses, are benefitting from strong demand. Cyclical sectors, including industrials and materials, also performed well as the economic recovery continued.

Financials continued lagging the broader market, returning 4% as low interest rates, a flat yield curve and an uncertain outlook for credit losses weighed on these businesses. After bouncing back in Q2 from a weak Q1, energy was again the worst performing sector, falling nearly 20% in Q3. Although crude oil prices have stabilized around \$40 per barrel, inventories remain high and the rebound in demand seems to be stalling. The sector is now the smallest in the Russell 1000 Index, ending the quarter at just 2% of the index.

RUSSELL 1000 INDEX SECTOR RETURNS - 3Q20



Source: FactSet.



TEAM

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The Russell 1000 Value Index outpaced the Russell 1000 Growth Index by more than 200 basis points during September, falling just 2.5% while the growth index fell 4.7%. Yet, for the full quarter, the growth index's 13.2% return bested the value index by approximately 760 basis points. This brings the Russell 1000 Growth Index's year-to-date return to 24.3%, about 36 percentage points ahead of the value index's 11.6% decline. If this outperformance level holds through year end, it would be the largest annual outperformance for one of these indices over the other since Russell created the style indices more than 30 years ago.

The Russell 1000 Index widened its lead over the Russell 2000 Index by about 450 basis points in the quarter, bringing the year-to-date outperformance of large caps to more than 15 percentage points. While the Russell 1000 Index has increased more than 6% this year, small caps are still down about 9%, in part because they have not gotten the lift from mega-cap technology stocks that have performed so well.

Market Outlook

The fiscal and monetary stimulus implemented this year has been unprecedented, and the Fed has made it clear it will continue doing what it takes to support the economy. This includes its intention to keep short-term interest rates near zero through 2023. Congress may approve additional fiscal stimulus, although disagreement over the size of such support is delaying approval.

Along with the recent real GDP decline, corporate earnings have been similarly affected, with S&P 500[®] earnings down approximately 50% in Q1 and an estimated 33% in Q2. Businesses with more variable cost structures have been able to protect margins and earnings better than those with greater fixed costs. We have been focused on assessing businesses' cost structures and how the associated operating leverage may impact near-term cash flows. In addition, we have been closely examining companies' balance sheets and liquidity situations to assess their ability to weather the downturn.

The November 2020 U.S. election may be an additional risk for corporate earnings. In a scenario where the Senate and presidency turn Democrat, it is likely that part of the 2017 corporate tax-rate cut will be reversed. This scenario may also result in additional regulations for businesses, which, while harder to detect, may also impact growth.

Though market volatility has declined significantly from Q1's record levels, it remains elevated. We expect markets to remain volatile until there is a sustained slowdown in COVID-19 cases or until a treatment or vaccine is deemed viable.

With the shape of the economic and earnings recoveries still highly uncertain, the magnitude and speed of the market rally is somewhat surprising. The market's forward price/earnings multiple went from below historical averages to above in a few short months. From current levels, equity market returns over the next five years are expected to be in the mid-single digit range.

We believe we can achieve better-than-market returns over the next five years through active portfolio management, and our primary focus is always on achieving value-added results for our existing clients.

All Cap Select Strategy Review

The Composite increased 12.06%, net of fees, compared to a 9.21% increase in the Russell 3000 Index and a 5.42% increase in the Russell 3000 Value Index.

The financials and consumer discretionary sectors were the primary contributors to absolute return. The industrials, information technology and communication services sectors provided a modest amount of return, while the health care and materials sectors were negligible detractors from absolute return.

The Composite's outperformance relative to the Russell 3000 Index was primarily driven by security selection in the consumer discretionary and financials sectors. No exposure to the energy sector and an overweight position in the consumer discretionary sector also contributed to relative return. Security selection in the health care sector was the largest detractor from relative return; however, an underweight position in the sector was a contributor. An overweight position in the financials sector was also a significant detractor from relative return.

Best Performers

- Mortgage servicing company **Mr. Cooper Group, Inc.**
- Consumer apparel manufacturer **Hanesbrands, Inc.**
- Industrial distributor **WESCO International, Inc.**
- Casino operator **Red Rock Resorts, Inc. (CI A)**
- Diversified holding company **Berkshire Hathaway, Inc. (CI B)**

Worst Performers

- Tank barge operator **Kirby Corp.**
- Property and casualty insurance company **American International Group, Inc.**
- Egg producer **Cal-Maine Foods, Inc.**
- Banking and financial services company **Citigroup, Inc.**
- Airline operator **Copa Holdings S.A. (CI A)**

New Positions

- Chemicals company **W.R. Grace & Co.**
- Utilities company **UGI Corp.**
- Electronics component manufacturer **Sensata Technologies Holding PLC**
- Property and casualty insurance company **Alleghany Corp.**

Eliminated Positions

- Media and technology company **Alphabet, Inc. (CI A)**
- Airline operator **Copa Holdings S.A. (CI A)**
- Social media company **Facebook, Inc. (CI A)**
- Freight transportation management company **Hub Group, Inc. (CI A)**
- Life insurance company **MetLife, Inc.**

Diamond Hill All Cap Select Strategy

As of September 30, 2020

PERIOD & ANNUALIZED TOTAL RETURNS (%)

Inception Date: June 30, 2000

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	3Q20
ALL CAP SELECT COMPOSITE							
Gross of Fees	10.03	11.41	8.10	5.50	1.90	-7.40	12.25
Net of Fees	9.30	10.76	7.46	4.84	1.20	-7.90	12.06
BENCHMARKS							
Russell 3000 Index	6.53	13.48	13.69	11.65	15.00	5.41	9.21
Russell 3000 Value Index	6.61	9.75	7.43	2.11	-5.67	-12.23	5.42

CALENDAR YEAR RETURNS (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
ALL CAP SELECT COMPOSITE										
Gross of Fees	11.51	-0.58	12.70	45.86	12.59	-0.47	10.83	21.26	-11.19	31.92
Net of Fees	10.74	-1.21	12.00	45.11	12.05	-1.02	10.22	20.60	-11.74	31.14
BENCHMARKS										
Russell 3000 Index	16.93	1.03	16.42	33.55	12.56	0.48	12.74	21.13	-5.24	31.02
Russell 3000 Value Index	16.23	-0.10	17.55	32.69	12.70	-4.13	18.40	13.19	-8.58	26.26

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 – 6/30/20. 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 – 6/30/20. 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.; registration does not imply a certain level of skill or training. Diamond Hill provides investment management services to individuals and institutional investors through mutual funds and separate accounts. 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 = 0.80%; Over \$20,000,000 = 0.70%. 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. GIPS is a trademark of CFA Institute. CFA Institute has not been involved in the preparation or review of this report/advertisement. Index data source: London Stock Exchange Group PLC. See diamond-hill.com/disclosures for a full copy of the disclaimer.

AS OF YEAR-END	DHCM	ALL CAP SELECT COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management (Gross of Fees)	All Cap Select Composite	Russell 3000 Index	Russell 3000 Value Index
2019	\$23.4B	14	\$423.0M	0.30%	15.30%	12.21%	12.01%
2018	19.1B	13	310.7M	0.10	13.45	11.18	11.05
2017	22.3B	12	332.3M	0.16	11.85	10.09	10.33
2016	19.4B	13	324.6M	0.28	12.03	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	10.55	9.29	9.36
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 ¹	NA ¹	NA ¹

¹ Statistics are not presented because the 3-year annualized standard deviations are not required prior to 2011. This composite was created in October 2013.

The views expressed are those of Diamond Hill as of September 30, 2020 and are subject to change. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice. As of September 30, 2020 Diamond Hill owned Microsoft Corp. (equity), Alphabet, Inc. (equity) and Facebook, Inc. (equity).