

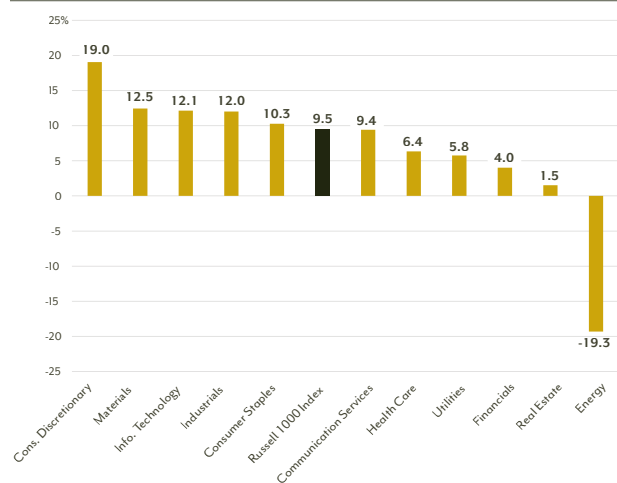
Market Commentary

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.



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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.

Large Cap Concentrated Strategy Review

The Composite increased 8.77%, net of fees, compared to a 9.47% increase in the Russell 1000 Index and a 5.59% increase in the Russell 1000 Value Index.

On an absolute basis, the health care, communications services, consumer discretionary and consumer staples sectors were the primary contributors to return. The energy sector was the only modest detractor from absolute return.

The Composite's underperformance relative to the Russell 1000 Index was primarily driven by an overweight position in the financials sector and a combination of security selection and an underweight position in the information technology sector. Security selection in the health care sector was by far the largest contributor to relative return.

Best Performers

- Pharmaceutical company **Abbott Laboratories**
- Diversified holding company **Berkshire Hathaway Inc. (CI B)**
- Homebuilder **NVR, Inc.**
- Consumer products manufacturer **Procter & Gamble Co.**
- Social media company **Facebook, Inc. (CI A)**

Worst Performers

- Banking and financial services company **Citigroup, Inc.**
- Property and casualty insurance company **American International Group, Inc.**
- Integrated oil and gas company **Chevron Corp.**
- Life insurance company **MetLife, Inc.**
- Media and communications services provider **Charter Communications, Inc. (CI A)**

New Positions

- Information technology services provider **Cognizant Technology Solutions Corp. (CI A)**
- Media and communications services provider **Charter Communications, Inc. (CI A)**
- Automobile manufacturer **General Motors Co.**

Eliminated Positions

- Media and technology company **Alphabet Inc. (CI A)**
- Life insurance company **MetLife, Inc.**
- Social media company **Facebook, Inc. (CI A)**

Diamond Hill Large Cap Concentrated Strategy

As of September 30, 2020

PERIOD & ANNUALIZED TOTAL RETURNS (%)

Inception Date: December 31, 2011

	SINCE INCEPTION	5-YR	3-YR	1-YR	YTD	3Q20
LARGE CAP CONCENTRATED COMPOSITE						
Gross of Fees	12.40	11.90	7.32	3.03	-4.77	8.89
Net of Fees	11.99	11.59	6.80	2.56	-5.10	8.77
BENCHMARKS						
Russell 1000 Index	14.28	14.09	12.38	16.01	6.40	9.47
Russell 1000 Value Index	10.13	7.66	2.63	-5.03	-11.58	5.59

CALENDAR YEAR RETURNS (%)

	2012	2013	2014	2015	2016	2017	2018	2019
LARGE CAP CONCENTRATED COMPOSITE								
Gross of Fees	10.00	38.75	10.70	-0.59	19.17	19.27	-7.16	31.76
Net of Fees	9.74	37.22	10.62	-0.46	19.15	18.56	-7.63	31.18
BENCHMARKS								
Russell 1000 Index	16.42	33.11	13.24	0.92	12.05	21.69	-4.78	31.43
Russell 1000 Value Index	17.51	32.53	13.45	-3.83	17.34	13.66	-8.27	26.54

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 Capital Management Inc. (DHCM) has been independently verified for the periods 5/31/00 – 6/30/20. DHCM'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 Large Cap Concentrated Composite has received a Performance Examination from 12/31/11 – 6/30/20. The verification and performance exam reports are available upon request. DHCM 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. DHCM 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 Large Cap Concentrated Composite is comprised of discretionary fee paying non-wrap accounts managed according to the firm's Large Cap Concentrated equity strategy. The strategy's investment objective is to achieve long-term capital appreciation by investing in large capitalization companies selling for less than our estimate of intrinsic value. Holdings are derived from holdings in the Diamond Hill Large Cap strategy. The Large Cap strategy typically invests in large-capitalization companies, which are defined as companies with a market capitalization of \$5 billion or greater. However, the Large Cap strategy can invest in companies with a market capitalization as low as \$2.5 billion. 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 1000 Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 1,000 largest companies, on a market capitalization basis, in the Russell 3000 Index. The Russell 1000 Value Index is shown as additional information. This index is an unmanaged market-capitalization weighted index measuring the performance of the large cap value segment of the U.S. equity universe including those Russell 1000 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 Large Cap separate accounts is as follows: First \$20,000,000 = 0.65%; Over \$20,000,000 = 0.55%. 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	LARGE CAP CONCENTRATED COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
	Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Large Cap Concentrated Composite	Russell 1000 Index	Russell 1000 Value Index
2019	\$23.4B	5 or fewer	\$27.7M	NA ¹	12.95%	12.05%	11.85%
2018	19.1B	5 or fewer	25.6M	NA ¹	12.34	10.95	10.82
2017	22.3B	5 or fewer	3.4M	NA ¹	12.41	9.97	10.20
2016	19.4B	5 or fewer	2.9M	NA ¹	12.77	10.69	10.77
2015	16.8B	5 or fewer	418.9M	NA ¹	12.07	10.48	10.68
2014	15.7B	5 or fewer	422.6M	NA ¹	9.29	9.12	9.20
2013	12.2B	5 or fewer	382.3M	NA ¹	NA ²	NA ²	NA ²
2012	9.4B	5 or fewer	275.9M	NA ¹	NA ²	NA ²	NA ²

¹ NA = Not applicable

² Statistics are not presented because 36 monthly returns are not available. This composite was created in December 2011.

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 was short equity shares of Tesla, Inc.

Global Investment Performance Standards