

(closed to new investors)

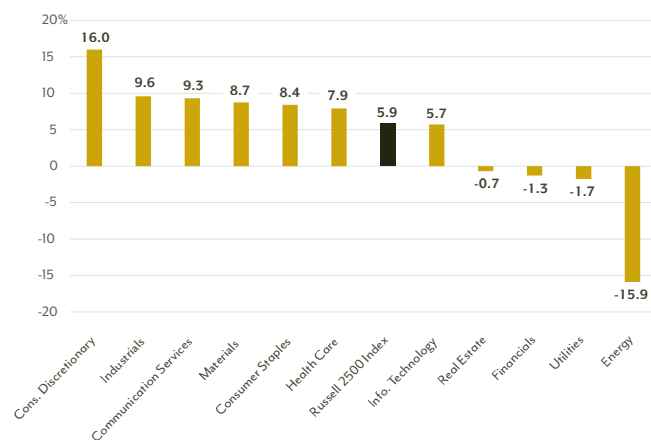
Market Commentary

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 2500 Index higher in Q3. Despite dropping about 8% from a new all-time high in early September, the index still returned 5.9% in Q3, reducing year-to-date losses to -5.8%.

Retail sales bounced back to all-time highs in August, driving market-leading returns for the consumer discretionary sector. Cyclical sectors, including materials and industrials, also performed well as the economic recovery continued. Communications services provided solid returns due to strong performances from internet-based businesses.

Financials continued lagging the broader market, falling 1.3% 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 15.9% 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 2500 Index, ending the quarter at just 2% of the index.

RUSSELL 2500 INDEX SECTOR RETURNS - 3Q20



Source: FactSet.

TEAM

Chris Welch, CFA
Portfolio Manager

The Russell 2500 Value Index trailed the Russell 2500 Growth Index by about 580 basis points during Q3. This brings the Russell 2500 Growth Index's year-to-date return to 11.6%, about 30 percentage points ahead of the value index's 18.4% decline. Large cap stocks outperformed mid caps which outpaced smaller stocks in Q3 and year-to-date, helped by strong performances among mega-cap technology stocks.

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.



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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.

Small-Mid Cap Strategy Review

The Composite increased 6.39%, net of fees, compared to a 5.88% increase in the Russell 2500 Index and a 3.54% increase in the Russell 2500 Value Index.

On an absolute basis, the consumer discretionary sector was the primary contributor to return, followed by the financials and industrials sectors.

The Composite's outperformance relative to the Russell 2500 Index was primarily driven by security selection in the financials sector and a combination of security selection and an overweight position in the consumer discretionary sector. Security selection in the real estate sector was also a modest contributor. Security selection in the materials, health care, industrials and consumer staples sectors detracted from relative return.

Best Performers

- Mortgage servicing company **Mr. Cooper Group, Inc.**
- Casino operator **Red Rock Resorts, Inc. (CI A)**
- Consumer apparel manufacturer **Hanesbrands, Inc.**
- Self-storage owner and operator **CubeSmart**
- Homebuilder **NVR, Inc.**

Worst Performers

- Tank barge operator **Kirby Corp.**
- Natural gas utilities company **South Jersey Industries, Inc.**
- Specialty chemicals and materials producer **W. R. Grace & Co.**
- Egg producer **Cal-Maine Foods, Inc.**
- Real estate investment trust **Douglas Emmett, Inc.**

New Positions

- Property and casualty insurance company **Alleghany Corp.**
- Medical device outsource manufacturer **Integer Holdings Corp.**

Eliminated Positions

- Coatings product manufacturer **Axalta Coating Systems Ltd.**
- Processed and packaged foods manufacturer **B&G Foods, Inc.**
- Oil and gas exploration and production company **Noble Energy, Inc.**
- Chemicals company **RPM International, Inc.**
- Insurance broker **Willis Towers Watson PLC**

Diamond Hill Small-Mid Cap Strategy

As of September 30, 2020

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PERIOD & ANNUALIZED TOTAL RETURNS (%)

Inception Date: December 31, 2005

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	3Q20
SMALL-MID CAP COMPOSITE							
Gross of Fees	7.99	9.61	4.58	-1.19	-10.86	-17.21	6.57
Net of Fees	7.20	8.85	3.83	-1.90	-11.50	-17.66	6.39
BENCHMARKS							
Russell 2500 Index	7.93	10.81	8.97	4.45	2.22	-5.82	5.88
Russell 2500 Value Index	5.79	8.01	4.65	-2.69	-12.62	-18.39	3.54

CALENDAR YEAR RETURNS (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
SMALL-MID CAP COMPOSITE										
Gross of Fees	24.74	-2.96	16.93	43.32	8.42	2.44	19.30	9.64	-11.71	28.84
Net of Fees	23.72	-3.62	16.19	42.39	7.69	1.76	18.47	8.86	-12.35	27.94
BENCHMARKS										
Russell 2500 Index	26.71	-2.51	17.88	36.80	7.07	-2.90	17.59	16.81	-10.00	27.77
Russell 2500 Value Index	24.82	-3.36	19.21	33.32	7.11	-5.49	25.20	10.36	-12.36	23.56

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 Small-Mid Cap Composite has received a Performance Examination from 12/31/05 – 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 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 = 0.85%; 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

AS OF YEAR-END	DHCM	SMALL-MID CAP COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management (Gross of Fees)	Dispersion (Gross of Fees)	Small-Mid Cap Composite	Russell 2500 Index
2019	\$23.4B	10	\$3.0B	0.11%	13.55%	14.58%	14.23%
2018	19.1B	14	2.5B	0.04	11.90	14.10%	13.58
2017	22.3B	16	3.2B	0.10	9.97	12.13	11.81
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 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.

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.

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Global Investment Performance Standards