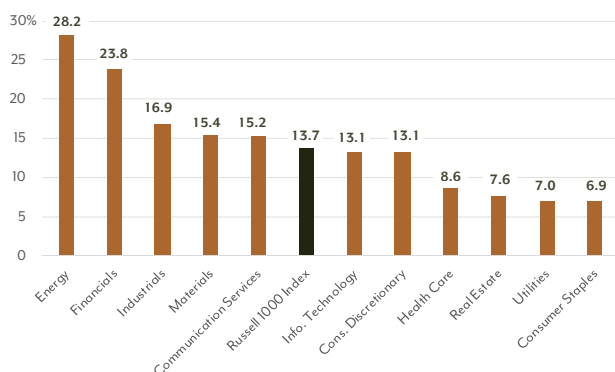


## Market Commentary

It was the best of times; it was the worst of times. Charles Dickens' famous opening phrase in "A Tale of Two Cities" puts the year 2020 into perspective. We experienced the "worst of times" with a global pandemic—the likes of which haven't been seen in over 100 years—a sharp bear market and economic recession, social unrest in the U.S., not to mention the impeachment of the U.S. president, and some of the worst wildfires in Australian history. The "best of times" in 2020 were perhaps more silver linings, including advancements in technology and health care as the work from home (WFH) era took hold (welcome to Zoom!) and several COVID-19 vaccines were approved in record time.

Despite unprecedented economic and market disruption, equities posted positive returns in excess of 18% in 2020 (as measured by the S&P 500® Index), a remarkable advance during a global pandemic. U.S. investors experienced particularly strong returns in Q4, most notably in November and December, following the U.S. presidential election and the approval/initial distribution of COVID-19 vaccines.

### RUSSELL 1000 INDEX SECTOR RETURNS - 4Q20



Source: FactSet.

## TEAM

**Austin Hawley, CFA**  
Portfolio Manager

**Rick Snowden, CFA**  
Portfolio Manager

In Q4, all sectors posted positive returns—energy, financials and industrials led the way, while defensive sectors such as utilities and consumer staples advanced to a lesser degree. Energy stocks were supported by an agreement between OPEC and Russia to boost oil supply, sending oil prices to a nine-month high in December. Large cap value stocks bested their growth counterparts by roughly 485 basis points during the quarter, a welcome reversal for value investors in a year where value drastically underperformed growth. Large-cap stocks trailed small and mid caps in Q4 by a healthy margin, driven by a sharp decline in mega cap tech stocks that started in September and continued in October. Concerns about a tech bubble and implications from a new administration, e.g., antitrust regulations, breakups and privacy, contributed to the decline. For the full year, large caps maintained their advantage over small- and mid-cap stocks, but by a much smaller margin than was seen earlier in the year.

## Market Outlook

After history's largest real GDP decline in early 2020, economic activity has been rebounding. That said, different areas of the economy are recovering at different paces—retail spending, for example, is already back above 2019 levels, while other industries may take years to return to such levels. We expect the recovery to continue in 2021 as vaccines are distributed more broadly and restrictions on day-to-day life are eased.

The fiscal and monetary stimulus implemented in 2020 was unprecedented, and the Fed made it clear that it will continue doing what it takes to support the U.S. economy—including its intention to keep short-term interest rates near zero through 2023. Congress also approved additional fiscal stimulus, which President-elect Biden is considering a "down payment" on more stimulus to come. Recently, such stimulus has been supportive of equity markets.

A sharp economic rebound, along with continued stimulus, could spur an inflation increase. Rising inflation and the higher interest rates that may come with it could be a headwind for equity markets and are risks we are monitoring closely.



Corporate earnings followed a similar path as real GDP—we saw dramatic declines in the first half of 2020 as economies locked down globally, followed by a strong rebound. After year-over-year declines in S&P 500® EPS in Q1 (down 49%) and Q2 (down 33%), Q3 earnings are estimated to decline just 5%. Currently, 2021 earnings per share are estimated to be above 2019 levels.

Although equity markets have recently hit all-time highs and corporate earnings may soon do the same, the after-effects of COVID-19 will linger for some industries more than others. While certain businesses have seen unprecedented spikes in demand, others have seen the opposite and have had to borrow heavily to survive. At Diamond Hill, we have been focused on how businesses managed their balance sheets and liquidity situations through the crisis, and how long-term competitive positions have been impacted.

With multiple, efficacious vaccines now being distributed, it is expected that the spread of COVID-19 will slow over the next several quarters. However, equity markets seemingly reflect much of the economic recovery to come, as the market's forward P/E multiple has already increased substantially. From current levels, equity market returns over the next five years are expected to be in the mid-single digit range.

As always, we remain focused on achieving value-added results for our clients and believe we can achieve better-than-market returns over the long term through active portfolio management.

## All Cap Select Strategy Review

The Composite increased 24.68%, net of fees, compared to a 14.68% increase in the Russell 3000 Index and a 17.21% increase in the Russell 3000 Value Index.

All sectors in the strategy contributed to absolute return, led by the financials and industrials sectors. Holdings in the consumer discretionary and materials sectors were also significant contributors.

The Composite's sizable outperformance relative to the Russell 3000 Index was primarily due to the combination of security selection and overweight positions in the financials and industrials sectors. Security selection within the communication services sector was also a significant contributor to relative return. The largest detractors from relative return were security selection in the health care sector, an overweight position in the consumer staples sector and the portfolio's cash position.

## Best Performers

- Industrial distributor **WESCO International, Inc.**
- Property and casualty insurance company **American International Group, Inc.**
- Mortgage servicing company **Mr. Cooper Group, Inc.**
- Shipping and transportation company **Kirby Corp.**
- Casino operator **Red Rock Resorts, Inc. (CIA)**

## Worst Performers

- Consumer apparel manufacturer **Hanesbrands, Inc.**
- Egg producer **Cal-Maine Foods, Inc.**
- Biopharmaceutical company **Pfizer, Inc.**
- Pharmaceutical company **GlaxoSmithKline PLC**
- Global automotive supplier **BorgWarner, Inc.**

## New Positions

- Regional bank **Sterling Bancorp**
- Medical device manufacturer **Boston Scientific Corp.**
- Regional bank **Cadence Bancorp (CIA)**
- Biopharmaceutical company **Pfizer, Inc.**

## Eliminated Positions

- Banking and financial services company **Citigroup, Inc.**
- Ski resort owner and operator **Vail Resorts, Inc.**

# Diamond Hill All Cap Select Strategy

As of December 31, 2020

## PERIOD & ANNUALIZED TOTAL RETURNS (%)

Inception Date: June 30, 2000

	SINCE INCEPTION	20-YR	15-YR	10-YR	5-YR	3-YR	1-YR	YTD	4Q20
ALL CAP SELECT COMPOSITE									
Gross of Fees	11.10	11.23	9.91	12.80	12.73	10.65	15.64	15.64	24.89
Net of Fees	10.36	10.50	9.23	12.15	12.06	9.95	14.83	14.83	24.68
BENCHMARKS									
Russell 3000 Index	7.17	7.82	9.98	13.79	15.43	14.49	20.89	20.89	14.68
Russell 3000 Value Index	7.36	6.94	7.30	10.36	9.74	5.89	2.87	2.87	17.21

## CALENDAR YEAR RETURNS (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
ALL CAP SELECT COMPOSITE															
Gross of Fees	15.16	6.57	-32.90	34.83	11.51	-0.58	12.70	45.86	12.59	-0.47	10.83	21.26	-11.19	31.92	15.64
Net of Fees	14.37	5.75	-33.39	33.89	10.74	-1.21	12.00	45.11	12.05	-1.02	10.22	20.60	-11.74	31.14	14.83
BENCHMARKS															
Russell 3000 Index	15.72	5.14	-37.31	28.34	16.93	1.03	16.42	33.55	12.56	0.48	12.74	21.13	-5.24	31.02	20.89
Russell 3000 Value Index	22.34	-1.01	-36.25	19.76	16.23	-0.10	17.55	32.69	12.70	-4.13	18.40	13.19	-8.58	26.26	2.87

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. DHCM has been independently verified for the period 5/31/00 - 9/30/20. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The All Cap Select Composite has had a Performance Examination for the period 6/30/00 - 9/30/20. 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 institutions through mutual funds and separate accounts. A complete list and description of all composites and policies for valuing investments, calculating performance and preparing GIPS reports are available upon request. In addition, a list of broadly distributed pooled funds is 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.** GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. 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)	Dispersion (Gross of Fees)	All Cap Select Composite	Russell 3000 Index
2020	\$26.4B	9	\$348.2M	0.15%	25.85%	19.41%	19.95%
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	12.05	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 <sup>1</sup>	NA <sup>1</sup>	NA <sup>1</sup>
2009	6.3B	29	155.0M	0.97	NA <sup>1</sup>	NA <sup>1</sup>	NA <sup>1</sup>
2008	4.5B	35	83.3M	0.82	NA <sup>1</sup>	NA <sup>1</sup>	NA <sup>1</sup>
2007	4.4B	36	102.2M	0.32	NA <sup>1</sup>	NA <sup>1</sup>	NA <sup>1</sup>
2006	3.7B	34	126.3M	0.75	NA <sup>1</sup>	NA <sup>1</sup>	NA <sup>1</sup>

<sup>1</sup> 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 December 31, 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.

**Global Investment Performance Standards**