

(closed to most new investors)

Market Commentary

Following a trying 2020, investors (and people in general) were hopeful that 2021 would bring better times. Thus far, we've seen continued distribution of COVID-19 vaccines globally, gradual steps to reopening economies and broad gains in U.S. stocks across sectors.

In Q1, all but one sector in the Russell 2500[®] Index posted positive returns. Strong double-digit gains were seen in the market's more cyclical areas, including energy, consumer discretionary, financials and industrials, on expectations that U.S. economic growth and demand are picking up steam. On the other end of the spectrum were health care, technology and utilities stocks. After 53% and 46% gains in 2020, technology and health care cooled off in Q1 with 1.3% and -0.1% returns.

Small cap stocks were the winners this quarter, advancing 12.7% compared to an 8.1% gain for mid caps and a 5.9% gain for large caps. As they did in Q4 2020, value bested growth across the market cap spectrum with the widest dispersion in small caps where value led growth by over 1600 basis points. Mid cap value stocks beat their growth counterparts by more than 1300 basis points, and large cap value stocks outpaced large cap growth by 1032 basis points.

It's fascinating to note that over the past 13 months, which includes a once-in-a-hundred-years (hopefully) global pandemic, U.S. stocks have advanced 36%, and over the past 12 months they have advanced 62% (as measured by the Russell 3000[®] Index). Those are incredible gains considering what we've been through over the past year. As valuation-disciplined investors, strong market advances like these make our job of finding stocks trading at discounts to their intrinsic value more challenging, but we continue to look for pockets of the market that are not being rewarded.

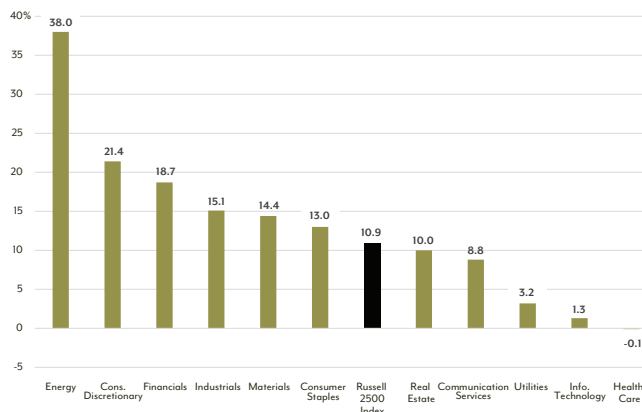


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RUSSELL 2500[®] INDEX SECTOR RETURNS - 1Q21



Source: FactSet.

Performance Discussion

The portfolio outpaced the Russell 2500[®] Index in the quarter with positive absolute results across all sectors. Solid stock selection combined with underweight exposure in both health care and technology aided relative returns. Of particular note was financials—our largest absolute and relative sector exposure—and specifically banks, where solid earnings for our holdings along with optimism from vaccine rollouts, reopening of the economy, the prospect of rising rates, an improvement in credit and the possibility of increased M&A activity provided a tailwind. Our cash position amid strong market returns as well as our consumer staples exposure were our largest relative detractors. Our overweight positioning in staples proved a headwind as the stocks have lagged cyclicals and areas viewed as more leveraged to an economic reopening post-pandemic. Our consumer discretionary holdings in aggregate also weighed on returns—our above-benchmark exposure to cyclicals helped, but results were weighed down by select company-specific issues.

On an individual holdings basis, top contributors to return included bank holdings Sterling Bancorp, SVB Financial and BOK Financial. In general, banks had been better positioned heading into the COVID-19-related shutdowns than during the financial crisis due to regulatory requirements for higher capital levels and more prudent underwriting. That said, our holdings tend to have carved out a specialized niche and/or have a strong geographic footprint, have proven to be conservative underwriters and have demonstrated their ability to compound returns and grow intrinsic

value. Sterling Bancorp, our largest bank holding, focuses on building relationships with small and middle-market companies in the Long Island region that larger banks tend to overlook. Sterling also appears to be astute in making acquisitions and allocating capital, having executed well on three larger acquisitions since 2013 and opportunistically repurchasing shares, all while investing in technology necessary to meet clients' changing demands.

Red Rock Resorts was another top contributor in Q1, as it has been since the pandemic-related market bottom in March 2020. Red Rock controls over half the Las Vegas locals market, where government legislation restricting greenfield development has effectively created a duopoly. Through a tough operating environment, management has meticulously controlled costs and improved the balance sheet and is delivering record margins. We believe there is tremendous pent-up demand waiting to be released amid post-pandemic reopening—on top of favorable conditions for economic expansion in Las Vegas, including an attractive tax environment driving in-migration.

Other top contributors in Q1 included Cimarex Energy, an independent oil and gas exploration and production company operating primarily in the Permian Basin and Mid-Continent regions.

Bottom contributors included PROG Holdings, the largest virtual lease-to-own provider in the U.S. Weaker traffic at PROG's brick-and-mortar partners and supply chain issues impacted availability of furniture and appliances to lease. We anticipate these issues should improve later in 2021. Additionally, an inquiry into lease-to-own providers by California's relatively new Department of Financial Protection and Innovation may lead to an increased regulatory burden. However, management is executing well on its integration of e-commerce capabilities with existing partners and is looking to expand with third-party platforms. Further, the business model is attractive as it is relatively asset-light and generates strong and consistent free cash flow.

Carter's, which sells baby clothes under brands like Carter's and OshKosh, was another bottom contributor. Carter's stock slumped in Q1 when forward guidance did not meet investors' expectations and management outlined a lower long-term margin profile than previously communicated. In our view, Carter's is the market-share leader in infant and baby apparel with strong brand recognition across both its wholesale platform and omni-channel retail presence. This competitive position should enable Carter's to transition and thrive in the more digitally driven environment of our future.

Other bottom contributors included Bermuda-based reinsurer Renaissance Re, insurance broker Brown & Brown, and Stericycle, the largest provider of regulated medical waste management in the U.S.

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Portfolio Activity

We added no new holdings to the portfolio in Q1. We exited student housing REIT American Campus Communities and ground-lease focused REIT iStar Inc., in favor of increasing exposure to higher conviction names.

Market Outlook

After history's largest real GDP decline in early 2020, economic activity has been rebounding—albeit, different economic areas are recovering at different paces. Retail spending, for example, has been above 2019 levels for several quarters, 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 the past 12 months is 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. President Biden also approved nearly \$2 trillion of additional COVID-19 relief and is considering additional spending that could focus on areas like infrastructure, jobs and climate change. Along with real GDP growth above historic averages, corporate earnings are expected to increase dramatically in 2021 and reach new highs. That said, a sharp economic rebound, along with continued stimulus, could spur a rise in inflation. Higher inflation and the interest rates that may come with it could be a headwind for equity markets and are risks we are monitoring closely.

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

With the distribution of multiple, highly efficacious vaccines progressing, it is expected that the spread of COVID-19 will continue to slow over the next several quarters. Despite the risk of new variants, equity markets seemingly reflect much of the economic recovery to come, with a forward P/E multiple at a historically elevated level. From current levels, equity market returns over the next five years are expected to be below historic norms.

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

Diamond Hill Small-Mid Cap Strategy

As of March 31, 2021

PERIOD AND ANNUALIZED TOTAL RETURNS

Inception Date: December 31, 2005

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	SINCE INCEPTION	15-YR	10-YR	5-YR	3-YR	1-YR	YTD	1Q21
SMALL-MID CAP COMPOSITE								
Gross of Fees	10.23	9.97	11.52	11.23	10.58	82.93	15.12	15.12
Net of Fees	9.44	9.18	10.76	10.44	9.79	81.68	14.93	14.93
BENCHMARKS								
Russell 2500 Index	10.13	9.53	12.20	15.93	15.34	89.40	10.93	10.93
Russell 2500 Value Index	8.45	7.87	10.23	12.15	10.88	87.47	16.83	16.83

CALENDAR YEAR RETURNS (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
SMALL-MID CAP COMPOSITE															
Gross of Fees	11.23	0.52	-29.38	41.71	24.74	-2.96	16.93	43.32	8.42	2.44	19.30	9.64	-11.71	28.84	2.29
Net of Fees	10.43	-0.22	-29.99	40.52	23.72	-3.62	16.19	42.39	7.69	1.76	18.47	8.86	-12.35	27.94	1.55
BENCHMARKS															
Russell 2500 Index	16.17	1.38	-36.79	34.39	26.71	-2.51	17.88	36.80	7.07	-2.90	17.59	16.81	-10.00	27.77	19.99
Russell 2500 Value Index	20.18	-7.27	-31.99	27.68	24.82	-3.36	19.21	33.32	7.11	-5.49	25.20	10.36	-12.36	23.56	4.88

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 - 12/31/20. 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 Small-Mid Cap Composite has had a Performance Examination for the period 12/31/05 - 12/31/20. 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 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.** 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	3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)					
		SMALL-MID CAP COMPOSITE				Small-Mid Cap Composite	Russell 2500 Index
	Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)			
2020	\$26.4B	9	\$2.6B	0.08%	24.33%	24.21%	25.05%
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 ²	NA ²	NA ²
2009	6.3B	6	64.1M	1.20	NA ²	NA ²	NA ²
2008	4.5B	8	47.9M	0.53	NA ²	NA ²	NA ²
2007	4.4B	9	70.4M	0.15	NA ²	NA ²	NA ²
2006	3.7B	5 or fewer	34.1M	NA ¹	NA ²	NA ²	NA ²

¹ NA = Not Applicable

² 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 March 31, 2021 and are subject to change. 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. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice.

Global Investment Performance Standards