

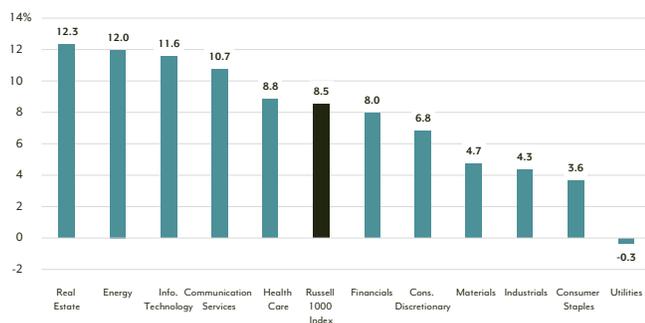
## Market Commentary

Equity markets moved higher in Q2, closing out the first half of the year with double-digit gains as the economic recovery picked up steam. Vaccination rates continued to rise—albeit at a slower pace—and many states lifted mask mandates giving consumers more confidence that conditions are improving. The White House announced a tentative infrastructure spending deal, which contributed to the rosy economic outlook. With a backdrop of improving economic conditions, inflation ticked up, though it remains unclear whether it's transitory or the beginning of a longer-term trend.

Most sectors in the Russell 1000® Index advanced in Q2, with double-digit gains in real estate (12%), energy (12%), technology (11%) and communication services (10%). With inflation concerns on the rise, investors looking to hedge their portfolios boosted real estate stocks in Q2, given this market segment often benefits from pricing power. After taking a breather in Q1, technology stocks rallied on the back of higher economic growth, including Facebook, which advanced more than 18%. Relative laggards this quarter were the more defensive sectors of the market, including consumer staples and utilities, which returned 3.6% and -0.3%, respectively.

In a reversal from Q1, large cap stocks posted the strongest gains (up 8.5%) followed closely by mid caps (up 7.5%) and then small caps (up 4.3%). Also changing course this quarter was the preference for value—growth stocks' advance roughly doubled value's in the large and mid cap market segments. Interestingly, small cap value stocks edged out small growth by 64 basis points. Value stocks across all market cap segments still lead by a wide margin year to date due to their strong Q1 performance.

## RUSSELL 1000® INDEX SECTOR RETURNS - 2Q21



Source: FactSet, as of 6/30/2021.



## TEAM

**Chuck Bath, CFA**  
Portfolio Manager

**Austin Hawley, CFA**  
Portfolio Manager

**Brian Fontanella, CFA**  
Portfolio Specialist

## Performance Discussion

The portfolio did not keep pace with the Russell 1000® Index in Q2, due in part to the underperformance of our technology holdings. Additionally, relative results were hampered by what we did not own, namely some of the largest index constituents like Microsoft and Apple or the biggest gainers in the index such as NVIDIA Corp. Our holdings in the health care and communication services sectors also trailed those in the index. Despite a challenging relative quarter, the portfolio has advanced over 9% since its inception in February of this year.

On an individual holdings basis, top contributors to return included private equity firm KKR & Co., banking and financial services company Charles Schwab and social media company Facebook. KKR & Co. continues to benefit from the improving growth and cash flow dynamics of the increasingly clearer fundraising cycle and improving prospects for monetizing prior investments. Schwab's share price responded favorably in Q2 to the recent run up in rates—it is among the most interest-rate sensitive stocks in the financial sector. From a fundamental perspective, Schwab has benefited from strength in client asset growth, new account growth, higher trading volumes and client cash utilization. Client engagement also remains favorable, though off from peak levels experienced earlier this year. We remain attracted to the secular growth businesses in the retail (online broker) and institutional (RIA) channels and expect a strong tailwind from higher rates over the next several years.

Facebook was a new purchase in the portfolio this quarter. Facebook is the world's largest social network and owns other large user-base apps such as Instagram, WhatsApp and Messenger. Its family of apps benefits from "network effects" by providing an essential utility to their users, allowing them to connect with friends and share their experiences. We initiated a position in the company based on our belief that its attractive network economics will remain in place over the long term. In our view, the company has executed exceptionally well over the past three years, adding new features and services that users enjoy. We expect Facebook advertising to drive revenue growth with an attractive margin profile for the company.

Other top contributors in the quarter included diversified holding company Berkshire Hathaway and consumer food and beverage products manufacturer Mondelez International, whose share prices advanced 8% and 7%, respectively.

Among our weakest stocks were Cognizant Technology Solutions and new holding Freeport-McMoRan. IT services provider Cognizant Technology Solutions has experienced a higher-than-normal level of employee attrition of late given the highly competitive nature of the industry, which has hampered near-term revenue growth. In May, we initiated a position in Freeport-McMoRan, a copper-focused mining company with high quality assets around the world. As global demand for electrification and construction increases, the supply of new copper-producing projects has lagged. This supply-and-demand dynamic has created an attractive opportunity to invest in a strong business that is oriented toward strengthening end markets.

Other bottom contributors in the quarter included health care products manufacturer Abbott Laboratories, entertainment company Walt Disney and telecom and media company Charter Communications.

## Portfolio Activity

With continued gains in equity markets, finding undervalued businesses has been more challenging of late. Additionally, due to the highly concentrated nature of the portfolio, new holdings face high hurdles for making it into the portfolio as we want to be confident any potential new holding is a superior investment to an existing holding. We only made two new investments this quarter—Facebook and Freeport-McMoRan. To help fund these purchases, we exited our positions in Charter Communications and Procter & Gamble.

## Market Outlook

Vaccination progress globally has allowed economies to reopen and consumers to dust off the cobwebs of being in a prolonged lockdown. Many economic sectors are recovering quickly as pent-up demand is unleashed. That said, some industries may take years to return to prior levels, e.g., business travel. Additionally, the COVID-19 Delta variant, which has caused a spike in cases and hospitalizations, could be a deterrent to further economic progress as we move into the second half of the year.

Fiscal and monetary stimulus remains at unprecedented levels. The White House is pursuing additional spending measures to support the economy, including the aforementioned infrastructure plan. The Fed remains extraordinarily accommodative, but its recent comments acknowledged stronger economic activity and an uptick in inflation. The Fed's outlook was mostly unchanged in its recent meeting, which seemed to curb some inflation concerns. Rate hikes are now expected to occur in 2023 rather than 2024, but continued economic strength, federal stimulus, wage growth and supply/demand tightness could alter that course and force the Fed to pull the timeframe forward. 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.

Along with real GDP growth above historic averages, corporate earnings are expected to come in markedly higher in 2021. Equity markets seem to fully reflect the economic progress with forward P/E multiples near historic highs. From current levels, equity market returns over the next five years are expected to be in the mid to high single digit range.

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 Large Cap Concentrated Strategy

As of June 30, 2021

## PERIOD AND ANNUALIZED TOTAL RETURNS

Inception Date: December 31, 2011

	SINCE INCEPTION	5-YR	3-YR	1-YR	YTD	2Q21
<b>LARGE CAP CONCENTRATED COMPOSITE</b>						
Gross of Fees	14.83	16.58	16.34	45.66	15.26	4.02
Net of Fees	14.41	16.02	15.82	45.07	15.03	3.92
<b>BENCHMARKS</b>						
Russell 1000 Index	16.31	17.99	19.16	43.07	14.95	8.54
Russell 1000 Value Index	12.90	11.87	12.42	43.68	17.05	5.21

## CALENDAR YEAR RETURNS (%)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>LARGE CAP CONCENTRATED COMPOSITE</b>									
Gross of Fees	10.00	38.75	10.70	-0.59	19.17	19.27	-7.16	31.76	10.52
Net of Fees	9.74	37.22	10.62	-0.46	19.15	18.56	-7.63	31.18	10.03
<b>BENCHMARKS</b>									
Russell 1000 Index	16.42	33.11	13.24	0.92	12.05	21.69	-4.78	31.43	20.96
Russell 1000 Value Index	17.51	32.53	13.45	-3.83	17.34	13.66	-8.27	26.54	2.80

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 periods 5/31/00 - 3/31/21. 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 Large Cap Concentrated Composite has had a Performance Examination for the period 12/31/11 - 3/31/21. 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 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 Concentrated strategy typically invests in companies with a market capitalization of \$15 billion or greater. 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 Concentrated separate accounts is as follows: First \$20,000,000 = 0.60%; Over \$20,000,000 = 0.50%. 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)					
		LARGE CAP CONCENTRATED COMPOSITE			Large Cap Concentrated Composite	Russell 1000 Index	Russell 1000 Value Index
	Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)			
2020	\$26.4B	5 or fewer	\$27.2M	NA <sup>1</sup>	20.56%	19.10%	19.62%
2019	23.4B	5 or fewer	27.7M	NA <sup>1</sup>	12.95	12.05	11.85
2018	19.1B	5 or fewer	25.6M	NA <sup>1</sup>	12.34	10.95	10.82
2017	22.3B	5 or fewer	3.4M	NA <sup>1</sup>	12.41	9.97	10.20
2016	19.4B	5 or fewer	2.9M	NA <sup>1</sup>	12.77	10.69	10.77
2015	16.8B	5 or fewer	418.9M	NA <sup>1</sup>	12.07	10.48	10.68
2014	15.7B	5 or fewer	422.6M	NA <sup>1</sup>	9.29	9.12	9.20
2013	12.2B	5 or fewer	382.3M	NA <sup>1</sup>	NA <sup>2</sup>	NA <sup>2</sup>	NA <sup>2</sup>
2012	9.4B	5 or fewer	275.9M	NA <sup>1</sup>	NA <sup>2</sup>	NA <sup>2</sup>	NA <sup>2</sup>

<sup>1</sup> NA = Not Applicable

<sup>2</sup> 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 June 30, 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**