Diamond Hill Small-Mid Cap Strategy

As of June 30, 2021

(closed to most new investors)

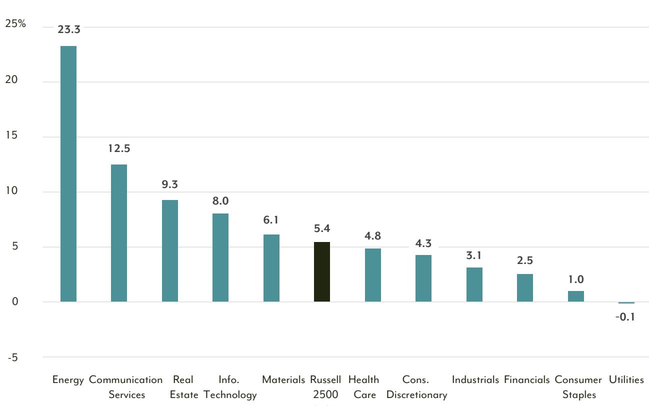
Market Commentary

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 rising—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 2500® Index advanced in Q2, with double-digit gains in energy (23.3%) and communication services (12.5%), followed by real estate (9.3%). With a strong economic rebound and expectations for rising inflation, the energy sector continues seeing strong gains. Relative laggards during Q2 were the market's more defensive sectors, including consumer staples and utilities, which returned 1.0% and -0.1%, respectively.

In a reversal from Q1, the Russell 1000® Index posted the strongest gains (up 8.5%) followed closely by the Russell Midcap® Index (up 7.5%) and then the small cap Russel 2000® Index (up 4.3%). Also changing course this quarter was the preference for value—the growth indices' advance roughly doubled value's in the large and mid cap market segments. Interestingly, the small cap value index slightly edged out small growth. The value indices across all market cap segments still lead by a wide margin year to date due to their strong Q1 performance.

RUSSELL 2500® INDEX SECTOR RETURNS - 2Q21



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

TEAM

Chris Welch, CFA Portfolio Manager	Kristen Sheffield, CFA, CIPM Portfolio Specialist

Performance Discussion

The portfolio performed roughly in line with the Russell 2500® Index in the quarter, delivering solid absolute results and remaining ahead of the benchmark year to date. Strong performances among our consumer discretionary, utilities, real estate and health care holdings aided relative results. Conversely, stock selection in technology detracted, where results were hampered by what we did not own—namely index-leading software companies with valuations that appear stretched to us. Our above-benchmark positioning in consumer staples and financials was also a headwind. Our cash position, which is a residual of our bottom-up opportunity set, has been a detractor amid strong market returns. With valuations near all-time highs, we are identifying fewer new opportunities selling at compelling discounts to long-term intrinsic value.

On an individual holdings' basis, top contributors to return included Red Rock Resorts, a casino operator controlling over half the Las Vegas locals market. Red Rock is benefiting from pent-up demand, but it also executed well through the pandemic—controlling costs by selectively reopening facilities, improving its balance sheet and delivering record margins.

WESCO, a leading distributor of electrical, industrial and communications materials, was a top contributor as it continues making progress on its integration of Anixter—an acquisition that closed in early 2020—and is strategically paying down merger-related debt. With increased scale and added synergy from its acquisition, we believe WESCO is well positioned as it generates strong free cash flow.

UGI Corporation, a natural gas and electric power utility, was another top contributor. UGI has made significant investments in its renewable fuels business, including renewable natural gas (RNG) and bioLPG—propane produced from renewable sources such as plant and vegetable waste material.

Other top contributors included self-storage REIT CubeSmart and Cimarex Energy, an independent oil and gas exploration and production company operating primarily in the Permian Basin and Mid-Continent region.

DIAMOND HILL CAPITAL MANAGEMENT

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Bottom contributors included Allegiant Travel. The airline industry overall gave back some gains in Q2 following strong returns over the past three quarters. We believe Allegiant, along with our other travel & leisure names, remains well positioned to benefit from pent-up demand as vaccine distribution expands and capacity restrictions are removed. Leisure travel, where Allegiant is focused, has been recovering first, and Allegiant is benefiting from having a more flexible route structure than peers.

Cal-Maine, the largest producer and distributor of fresh eggs in the U.S., was another bottom contributor. The environment for shell eggs has been challenging over the past 12 months. During 2020, producers that typically sell into restaurants and cafeterias responded to the demand shock by shifting into grocery stores where Cal-Maine operates—pressuring pricing. The economic reopening has improved the oversupply, but pricing remains challenged as an increase in eating away from home has pressured demand. We continue to think the long-term opportunity for Cal-Maine is in its cage-free production capabilities. Cal-Maine's ongoing investments here have depressed free cash flow in the near term but should bear long-term fruit, particularly as California looks to go 100% cage-free in 2022.

Footwear and apparel company Wolverine World Wide detracted from results despite a solid quarterly update. Its share price dipped in part on concerns that post-stimulus demand may slip, particularly should brand-specific COVID-related tailwinds—increased interest in outdoor and running gear—abate. However, our long-term fundamental outlook remains favorable—we believe Wolverine is well positioned due to its exposure to attractive categories (activity-based brands), shift to accretive e-commerce, nimble cost structure and improved balance sheet.

Other bottom contributors included medical liability insurance company ProAssurance Corporation and life and health reinsurance provider Reinsurance Group of America.

Portfolio Activity

With continued gains in equity markets, our process is uncovering fewer opportunities selling at a discount to long-term intrinsic value. As such, we added no new holdings to the portfolio in Q2. We exited freight transportation management company Hub Group as it approached our estimate of intrinsic value and networking technology provider Juniper Networks to add to existing holdings that offer more attractive discounts.

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-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.

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PERIOD AND ANNUALIZED TOTAL RETURNS

Inception Date: December 31, 2005

	SINCE INCEPTION	15-YR	10-YR	5-YR	3-YR	1-YR	YTD	2Q21
SMALL-MID CAP COMPOSITE								
Gross of Fees	10.45	10.42	12.14	11.86	11.48	60.11	21.61	5.63
Net of Fees	9.65	9.62	11.37	11.06	10.68	59.01	21.18	5.44
BENCHMARKS								
Russell 2500 Index	10.33	10.25	12.86	16.35	15.24	57.79	16.97	5.44
Russell 2500 Value Index	8.65	8.41	10.93	12.29	10.60	63.23	22.68	5.00

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 - 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 Small-Mid Cap Composite has had a Performance Examination for the period 12/31/05 - 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 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	SMALL-MID CAP COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
	Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Small-Mid Cap Composite	Russell 2500 Index	Russell 2500 Value Index
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 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