Diamond Hill Mid Cap Strategy

As of September 30, 2021

Market Commentary

As we closed out the third quarter, September marked the worst month since the pandemic-induced selloff in March 2020. Investor concerns mounted as the delta-variant resurgence in COVID-19 cases, rising inflation and supply chain disruptions impacted economic growth expectations. Also dampening market sentiment in Q3 was continued wrangling in Washington over the debt ceiling and a massive infrastructure deal, as well as concerns over debt-laden property developer China Evergrande Group.

Equity markets ended the third quarter mixed—large-cap stocks (as measured by the Russell 1000® Index) eked out a small gain (up 0.2%), while mid- and small-cap stocks were in the red (down -0.9% and -4.4%, respectively). The Russell growth style indices held up better than their value counterparts in the large- and mid-cap spaces, but the reverse was true for small caps. The Russell 2000® Value Index fell -3.0% during the quarter compared to the Russell 2000® Growth Index's -5.7% decline. Year to date, equities across the market-cap spectrum are still holding on to double-digit gains, and the value indices remain ahead of their growth counterparts, with the widest margin at the small end of the cap spectrum.

In the Russell Midcap® Index, the best performing sectors in Q3 were financials (+3.6%) and real estate (+2.5%). The biggest laggard was communication services, down -13.6%. Consumer staples (-5.2%), materials (-2.9%), consumer discretionary (-2.4%) and industrials (-2.4%) all trailed the index's -0.9% return. Year to date, energy stocks remain the clear winners with nearly 50% gains as economic activity resumed. The financials and real estate sectors have benefited from higher interest rate expectations, helping stocks in these sectors advance in excess of 20% thus far in 2021. Only the communications services sector is negative for the year, down approximately -2% in 2021.

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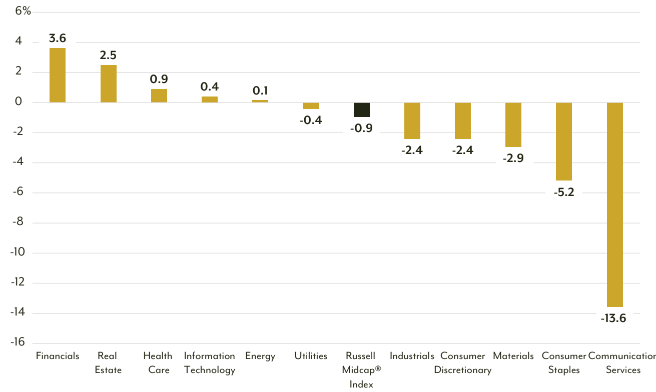
RUSSELL MIDCAP® INDEX SECTOR RETURNS - 3Q21



Source: FactSet, as of 9/30/2021.

Performance Discussion

The portfolio outpaced the Russell Midcap® Index in the quarter, delivering mildly positive returns against the index's negative return and adding to year-to-date outperformance. Relative results were aided by our financials exposure, particularly our exposure to banks, which is focused on companies that have a specialized niche and/or strong geographic footprint and have demonstrated their ability to compound returns and grow intrinsic value. Our exposure in communication services also boosted relative results, thanks to the strong performance of our sole holding (Liberty Media Formula One Group) and lack of exposure to some gaming and internet names that came under pressure. Conversely, weakness among our utilities and technology holdings was a headwind to relative performance.

On an individual holdings' basis, top contributors to return included Red Rock Resorts, American International Group (AIG) and WESCO International. Red Rock controls over half the Las Vegas locals' casino market and executed very well amid pandemic-related restrictions—controlling costs by selectively reopening facilities. Its margins have proven resilient as it continues benefiting from strong demand for gaming across the Las Vegas locals' market, delivering record cash flows.

Insurance company AIG continues advancing its property & casualty segment turnaround, improving underwriting margins and accelerating premium growth. It is also making progress in its separation of the life & retirement business—in Q3 AIG announced a partnership with Blackstone to monetize a portion of its ownership in the life & retirement business at an attractive price.

DIAMOND HILL CAPITAL MANAGEMENT

Please see GIPS report in the appendix.

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WESCO is a leading distributor of electrical, industrial and communications materials. Its acquisition of one of its largest competitors is progressing well. Scale is critical for distributors, and Wesco is now the largest player in a fragmented market, giving it increased bargaining power with suppliers, opportunities for cost cutting and better access to products than smaller peers who are struggling with supply chain issues. We believe Wesco is well positioned to continue taking share.

Other top contributors in Q3 included California-based bank SVB Financial, which focuses on the innovation economy, and Cimarex Energy, an independent oil and gas exploration and production company operating primarily in the Permian Basin and Mid-Continent region.

Bottom contributors in Q3 included South Jersey Industries (SJI), V.F. Corporation and BorgWarner. Gas utilities like SJI are viewed as yield-oriented investments and came under pressure this quarter with rising inflation concerns. Further, SJI's settlement discussions on its regulatory proceedings in the state of New Jersey have been taking a bit longer than anticipated. We believe the state understands the strategic optionality in maintaining a healthy gas utility system and anticipate a constructive outcome for the company.

Apparel and footwear company V.F. Corporation was pressured by concerns about the near-term impacts from supply chain disruptions, freight cost increases and lingering pressure dampening the recovery for its popular Vans® brand due to its outsized brick-and-mortar exposure. Yet, the remainder of its larger brands (including The North Face, Timberland, Dickie's and Supreme) has experienced solid momentum, and its emerging brands (e.g., Smartwool, Icebreaker and Altra) are seeing strong and accelerating demand. In our view, the long-term fundamental outlook remains unchanged.

BorgWarner, a global automotive supplier focused on fuel efficient technologies, has been pressured as the semiconductor supply shortage has limited automotive production for longer than initially anticipated. However, BorgWarner has a strong balance sheet and a history of smart capital allocation decisions. We are watching to see if BorgWarner can capitalize on its competitive positioning to take advantage of increased content per vehicle opportunities as more hybrid and electric technologies are adopted.

Other bottom contributors to return in Q3 included Kirby, a U.S.-based tank barge transporter of bulk liquid products, and Parker-Hannifin, a diversified industrial and aerospace manufacturer.

Portfolio Activity

We initiated holdings in Willis Towers Watson and Freeport-McMoRan in Q3. Insurance brokerage and consulting firm Willis Towers Watson (WLTW) is one we have prior experience with. We are attracted to its favorable industry structure and growing cash flows. In addition, WLTW has commanding share in a consolidated industry with high barriers to entry and switching costs. We had an opportunity to initiate a holding when shares sold off in response to the cancellation of the planned merger with Aon. We believe WLTW's strong balance sheet will allow it to compete effectively with its large broker peers as a stand-alone company.

Freeport-McMoRan offers a unique exposure to high-quality copper producing mines, which is a key industrial input, particularly for green technologies. As demand for electrification and construction globally increases, the supply of new copper-producing projects has lagged. This supply/demand dynamic has created an attractive opportunity to invest in a strong business oriented toward strengthening end markets.

We exited children's apparel manufacturer Carter's to upgrade capital to higher conviction names. Our position in specialty chemicals and materials company W. R. Grace & Co., was closed as the all-cash acquisition by Standard Industries Holdings, a privately held building materials company, was completed on September 22. We exited apartment REIT Mid-America Apartment Communities as shares approached our estimate of intrinsic value.

Market Outlook

Vaccination progress globally has allowed economies to reopen, leading to a sharp economic recovery. While we expect the recovery will continue into 2022, an uptick in coronavirus cases, supply chain issues and higher input costs may slow the earnings recovery for many businesses. In some areas, price increases due to short-term supply/demand imbalances may eventually prove transitory, though others may persist for a longer period.

The sharp economic rebound in the U.S., along with continued stimulus, wage growth and instances of supply/demand tightness, has resulted in broader inflation. To the extent this is sustained, rising inflation and higher interest rates could be a headwind for equity markets and are risks we are monitoring closely.

Economic stimulus remains at unprecedented levels. President Biden and Congress are pursuing additional spending measures to support the economy, and although Fed policy remains extraordinarily accommodative, the discussion is beginning to center on how and when to pull back on monetary stimulus via tapering and eventually interest rate hikes. The Fed has acknowledged stronger economic activity and an uptick in inflation—if that continues it may force the Fed to act sooner and more aggressively than is currently anticipated.

Along with real GDP growth above historic averages, corporate earnings have increased dramatically in 2021 and continue to reach new highs. Much of the recovery to date seems fully reflected in equity markets with forward P/E multiples near historic highs. From current levels, equity market returns over the next five years are likely 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.

PERIOD AND ANNUALIZED TOTAL RETURNS (%)

Inception Date: December 31, 2013

	SINCE INCEPTION	5-YR	3-YR	1-YR	YTD	3Q21
MID CAP COMPOSITE						
Gross of Fees	9.69	10.78	10.07	50.19	22.56	1.40
Net of Fees	9.07	10.19	9.53	49.51	22.15	1.28
BENCHMARKS						
Russell Midcap Index	11.87	14.39	14.22	38.11	15.17	-0.93
Russell Midcap Value Index	9.74	10.59	10.28	42.40	18.24	-1.01

CALENDAR YEAR RETURNS (%)

	2014	2015	2016	2017	2018	2019	2020
MID CAP COMPOSITE							
Gross of Fees	8.83	1.62	19.62	11.30	-9.55	26.73	-0.99
Net of Fees	8.13	0.95	18.86	10.65	-10.09	26.12	-1.47
BENCHMARKS							
Russell Midcap Index	13.22	-2.44	13.80	18.52	-9.06	30.54	17.10
Russell Midcap Value Index	14.75	-4.78	20.00	13.34	-12.29	27.06	4.96

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AS OF YEAR-END	DHCM	MID CAP COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
	Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Mid Cap Composite	Russell Midcap Index	Russell Midcap Value Index
2020	$26.4B	5 or fewer	$991.4M	NA[1]	24.56%	21.82%	22.62%
2019	23.4B	5 or fewer	569.1M	NA[1]	13.22	12.89	12.79
2018	19.1B	5 or fewer	143.5M	NA[1]	11.42	11.98	11.96
2017	22.3B	5 or fewer	129.6M	NA[1]	9.53	10.36	10.32
2016	19.4B	5 or fewer	58.8M	NA[1]	10.87	11.55	11.30
2015	16.8B	5 or fewer	18.6M	NA[1]	NA[2]	NA[2]	NA[2]
2014	15.7B	5 or fewer	16.3M	NA[1]	NA[2]	NA[2]	NA[2]

[1] NA = Not Applicable

[2] Statistics are not presented because 36 monthly returns are not available.

This composite was created in December 2013.

The views expressed are those of Diamond Hill as of September 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