Diamond Hill Small 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 margin widest at the small end of the cap spectrum.

In the Russell 2000® Index, the best performing sectors in Q3 were energy (+1.9%) and financials (+1.4%)—the only sectors to post positive returns. The biggest laggard was communication services (-14.3%), weighed down by the underperformance of "meme" stock AMC Entertainment. The health care (-10.4%), consumer discretionary (-6.9%), materials (-5.7%) and consumer staples (-5.3%) sectors all trailed the index's -4.4% return. Year to date, energy stocks remain the clear winners with 70%-plus gains as economic activity resumed. Communication services, consumer discretionary and financials are hanging onto 20%-plus gains year to date. Only utilities and health care are negative for the year, down approximately -8% and -2%.

TEAM

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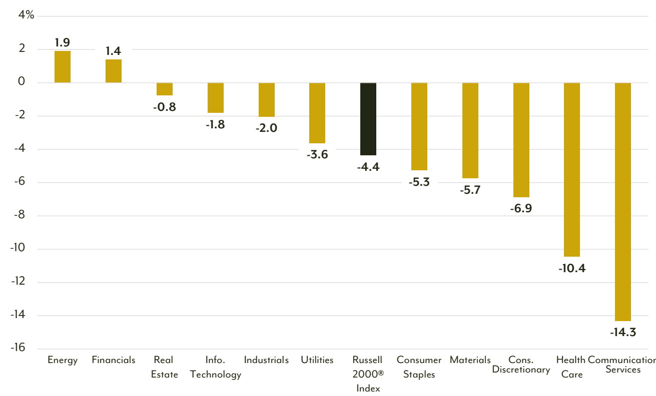
RUSSELL 2000® INDEX SECTOR RETURNS - 3Q21



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

Performance Discussion

The portfolio outpaced the Russell 2000® Index in the quarter, delivering nearly a 2% positive return against the index's negative return and adding to year-to-date outperformance. Relative performance was aided by our financials exposure, particularly 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. Strength among our consumer discretionary holdings was a tailwind. Our health care holdings were negative in aggregate, but outpaced index peers, which boosted relative performance along with our below-benchmark positioning. Weakness among our utilities holdings hampered relative performance, as did our below-benchmark exposure to technology, though our technology holdings still outpaced index peers.

On an individual holdings' basis, top contributors to return included Red Rock Resorts, SPX Flow and Triumph Bancorp. Red Rock, also a top contributor year to date, 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.

SPX Flow, a manufacturer of industrial flow control systems such as pumps, valves and mixers, benefited from news it had been approached by Ingersoll Rand about a possible acquisition. SPX rejected the proposal but is reviewing its strategic options, including interest from two other potential buyers. To us, this is a sign the market still undervalues this quality business but other strategic buyers see the value we do. We are confident management will either hold out for a price reflective of long-term intrinsic value or continue to execute as a standalone company, growing intrinsic value at an attractive rate for years to come.

Triumph Bancorp fits the description of a bank that has carved out a specialized niche with a strong geographic footprint. This Dallas-based bank has a unique focus on the transportation industry. It is building out a payments platform, TriumphPay, which could become the primary network for brokered freight payments—a space with little-to-no competition.

Other top contributors included WESCO International, a leading distributor of electrical, industrial and communications materials, and Mr. Cooper Group, a mortgage servicing company.

Bottom contributors in Q3 included Kirby Corporation, PROG Holdings and Green Brick Partners. Kirby, a U.S.-based tank barge transporter of bulk liquid products, retreated from its Q2 highs. The recovery in hydrocarbon product volumes slowed due in part to delta-variant related disruptions and an active hurricane season in the Gulf Coast, which restricted refinery operations.

Rental and leasing services company PROG holdings is the largest virtual lease-to-own provider in the U.S., with a diverse mix of both bricks-and-mortar and e-commerce retail partners. PROG was pressured in the quarter by investor worries over rising competition from new point-of-sale offerings relative to legacy lease-to-own offerings where PROG is a market leader. We believe PROG's core lease-to-own offering remains a unique market niche, and it continues making progress with large retail partnerships, notably Best Buy and Lowes, that are still in the early innings of growth.

Homebuilder Green Brick Partners has benefited from strong housing demand leading to higher prices. However, rising interest rates, as we saw in Q3, tend to be an industry-wide headwind, just as supply chain challenges delayed home closings, pushing back revenue to later quarters. Longer term, our thesis on Green Brick remains unchanged. We believe it is one of the best positioned small-cap housing companies, with attractive real estate, a strong balance sheet and a strong, shareholder-aligned management team that has been a wise allocator of capital.

Other bottom contributors in Q3 included specialty food manufacturer Lancaster Colony Corp and natural gas utility South Jersey Industries.

Portfolio Activity

We added just one new holding to the portfolio in Q3, Taseko Mines. Taseko is a small copper miner based in Canada and the U.S. Copper 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.

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 global medical technology company LivaNova 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.

Diamond Hill Small Cap Strategy

As of September 30, 2021

PERIOD AND ANNUALIZED TOTAL RETURNS (%)

Inception Date: December 31, 2000

	SINCE INCEPTION	20-YR	15-YR	10-YR	5-YR	3-YR	1-YR	YTD	3Q21
SMALL CAP COMPOSITE									
Gross of Fees	11.45	11.94	8.74	12.24	9.89	8.64	57.67	24.14	2.20
Net of Fees	10.58	11.07	7.89	11.35	9.02	7.78	56.47	23.42	2.00
BENCHMARKS									
Russell 2000 Index	9.02	10.29	9.16	14.63	13.45	10.54	47.68	12.41	-4.36
Russell 2000 Value Index	9.30	9.79	7.50	13.22	11.03	8.58	63.92	22.92	-2.98

CALENDAR YEAR RETURNS (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
SMALL CAP COMPOSITE															
Gross of Fees	8.60	-2.41	-25.03	30.96	24.76	-5.90	14.32	41.64	5.97	-2.44	15.61	12.05	-14.03	22.92	0.77
Net of Fees	7.78	-3.18	-25.62	29.93	23.77	-6.63	13.43	40.55	5.17	-3.22	14.70	11.16	-14.73	21.96	-0.03
BENCHMARKS															
Russell 2000 Index	18.37	-1.57	-33.79	27.17	26.85	-4.18	16.35	38.82	4.89	-4.41	21.31	14.65	-11.01	25.52	19.96
Russell 2000 Value Index	23.48	-9.78	-28.92	20.58	24.50	-5.50	18.05	34.52	4.22	-7.47	31.74	7.84	-12.86	22.39	4.63

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AS OF YEAR-END	DHCM	SMALL CAP COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
	Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Small Cap Composite	Russell 2000 Index	Russell 2000 Value Index
2020	$26.4B	5 or fewer	$542.6M	NA[1]	24.36%	25.27%	26.12%
2019	23.4B	5 or fewer	752.9M	NA[1]	14.20	15.71	15.68
2018	19.1B	5 or fewer	1.0B	NA[1]	12.11	15.79	15.76
2017	22.3B	5 or fewer	1.5B	NA[1]	9.44	13.91	13.97
2016	19.4B	5 or fewer	1.8B	NA[1]	10.65	15.76	15.50
2015	16.8B	5 or fewer	1.7B	NA[1]	10.58	13.96	13.46
2014	15.7B	6	1.5B	0.03%	10.62	13.12	12.79
2013	12.2B	7	1.4B	0.74	13.63	16.45	15.82
2012	9.4B	16	911.6M	0.20	15.71	20.20	19.89
2011	8.7B	16	910.2M	0.11	21.46	24.99	26.05
2010	8.6B	19	938.0M	0.24	NA[2]	NA[2]	NA[2]
2009	6.3B	18	621.2M	0.61	NA[2]	NA[2]	NA[2]
2008	4.5B	11	391.2M	0.32	NA[2]	NA[2]	NA[2]
2007	4.4B	9	383.4M	0.14	NA[2]	NA[2]	NA[2]
2006	3.7B	9	525.8M	0.44	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.

Global Investment Performance Standards