Diamond Hill Small-Mid Cap Strategy

As of September 30, 2021

(closed to most new investors)

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.

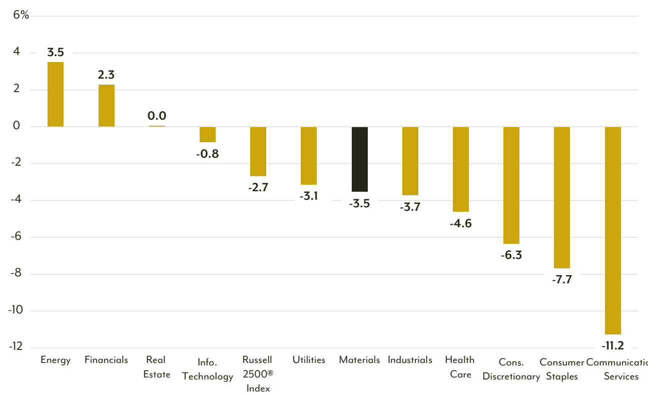
Equity markets ended the third quarter mixed—large-cap stocks (as measured by the Russell 1000® Index) eked out a small gain (up 0.2%), while mid- and small-cap stocks were in the red (down -0.9% and -4.4%, respectively). The Russell growth style indices held up better than their value counterparts in 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 2500® Index, the best performing sectors in Q3 were energy (+3.5%) and financials (+2.3%) with real estate returns just flat. Technology's -0.8% loss still outpaced the index's -2.7% return. The biggest laggard was communication services (-11.2%), weighed down by the underperformance of "meme" stock AMC Entertainment. Consumer staples (-7.7%) and consumer discretionary (-6.3%) were also particularly weak in Q3. Year to date, energy stocks remain the clear winners with 70%+ gains as economic activity resumed. The financials and real estate sectors have benefited from higher interest rate expectations, helping stocks in these sectors advance more than 20% thus far in 2021. Only health care and utilities are negative for the year, down less than -1% each in 2021.

TEAM

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

RUSSELL 2500® INDEX SECTOR RETURNS - 3Q21



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

Performance Discussion

The portfolio outpaced the Russell 2500® Index in the quarter, delivering mildly positive returns against the index's negative return and adding to year-to-date outperformance. Relative performance was aided by strength among our consumer discretionary and industrials holdings. We also benefited from our above-benchmark exposure to financials, 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. Conversely, weakness among our utilities holdings weighed on returns, as did our below-benchmark exposure to technology.

On an individual holdings' basis, top contributors to return in Q3 included Red Rock Resorts, WESCO International and SVB Financial—all are also top contributors year-to-date. 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.

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.

DIAMOND HILL CAPITAL MANAGEMENT

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California-based bank SVB Financial is executing well with organic growth well above peers. Its focus on the innovation economy remains a strong tailwind for this business.

Other top contributors included mortgage servicing company Mr. Cooper Group and Cimarex Energy, an independent oil and gas exploration and production company operating primarily in the Permian Basin and Mid-Continent region.

Bottom contributors included Kirby, BorgWarner and UGI Corp—a reversal from Q2 when UGI was a top contributor. 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.

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.

UGI is a gas utility with a propane and liquefied petroleum gas (LPG) delivery business. As a quasi-utility, investors can view UGI as yield-oriented, and it came under pressure due to rising inflation concerns during the quarter. In addition, higher propane and LPG prices might cause consumers to conserve usage in the near term. We believe the company is at the forefront of developing a renewable fuels business, which positions UGI well to transition to a carbon-constrained world over the long run.

Other bottom contributors included natural gas utility South Jersey Industries and PROG Holdings, a rental and leasing services company.

Portfolio Activity

We added two new holdings in Q3, Gates Industrial Corporation and First Interstate BancSystem. Gates owns two high-quality businesses, one focused mainly on industrial belts and the other on the automotive industry. We believe the belts business is positioned well as manufacturing plants switch from chains to belts due to their lower lifecycle costs and the elimination of oil-derived grease. Gates' automotive business stands to benefit from growing adoption of electric and hybrid vehicles, in addition to the increased content relative to internal combustion engines. We believe the market underappreciates the quality of this business.

First Interstate BancSystem, based in Billings, Montana, fits the description of a bank that has carved out a specialized niche with a strong geographic footprint. Thanks to a recent, well-executed technology investment cycle, it appears positioned to benefit in the years ahead in its attractive, growing 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 global medical technology company LivaNova and apartment REIT Mid-America Apartment Communities as they approached our estimates 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.

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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	3Q21
SMALL-MID CAP COMPOSITE								
Gross of Fees	10.37	10.73	14.63	10.92	11.53	52.22	23.21	1.32
Net of Fees	9.57	9.93	13.84	10.13	10.74	51.15	22.55	1.13
BENCHMARKS								
Russell 2500 Index	9.97	10.01	15.27	14.25	12.47	45.03	13.83	-2.68
Russell 2500 Value Index	8.36	8.10	13.35	10.49	8.87	54.38	20.14	-2.07

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 - 6/30/21. 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 - 6/30/21. 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 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