

Large Cap Concentrated Strategy

DIAMOND HILL

INVESTED IN THE LONG RUN

As of 31 Dec 2025

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Quarterly Snapshot

Performance

The Strategy returned 1.17% (net of fees) and the Russell 1000 Value Index returned 3.81%.

Key Drivers

Stock selection in health care and information technology were the largest detractors from relative performance. Stock selection in financials and consumer discretionary contributed, along with our underweight to utilities.

Summary

We remain cautious of the AI-driven market exuberance, where investor sentiment often appears to outpace business fundamentals. In contrast, we continue to find more attractive opportunities among high-quality, cash-generative, businesses with more defensive characteristics.

Market and portfolio review

Equity markets continued to move higher in Q4, with the Russell 1000 Value Index increasing 3.8%. The information technology (+11%) and communication services (+9%) sectors were again among the best performers in Q4, driven by continued optimism around artificial intelligence (AI). Health care (+8%) also posted a strong return, while utilities (-1%), real estate (-3%) and consumer discretionary (-0.2%) were the only sectors that declined.

When examining what contributed to the index's return in Q4, it is interesting to note that a large portion of the return came from what many consider growth areas of the market. The most notable example may be Alphabet, which was added to the index in June 2025 at a large weight. Its 29% return in Q4 made it by far the largest contributor to the index's performance for the quarter, and it is now the largest weight in the index by a wide margin. Many information technology stocks also outperformed in Q4, supported by the hundreds of billions of dollars of AI-related capital spending, with several stocks — such as Micron and SanDisk — increasing 50% to 100% or more. The portfolio's lack of exposure to these AI-related companies was responsible for around 70% of the Q4 underperformance, and this same dynamic was also a very large driver of the portfolio's full-year underperformance.

Over the past several quarters, we have been finding more value among more fundamentally stable, higher-quality, cash-generative businesses including Colgate, Aon and Berkshire Hathaway. However, these types of companies and defensive

areas of the market materially underperformed throughout 2025, creating an additional headwind to relative performance. Fundamentals for these high-quality businesses continue to perform in-line with our expectations, and despite being out of favor, we believe they are some of the more attractive opportunities available in the market today.

Key contributors

- Automobile manufacturer **General Motors** saw strong results as volumes have stabilized across the auto industry. The company has also taken market share while maintaining pricing and growing in the electric vehicle and software services spaces.
- Consumer finance company **Capital One Financial Group** outperformed during the quarter following strong Q3 results, with better-than-expected revenue and expense trends. Shares also benefited from management's clarity around accelerating share buybacks and from generally favorable economic data during the period, which supported investor confidence in spending and credit trends.
- Property and casualty insurer **American International Group (AIG)** reported better-than-expected earnings, with strong expense management and share repurchases offsetting a weakening pricing environment. Shares also benefited from reports that fellow insurer Chubb is exploring a potential acquisition of the company.

Key detractors

- Pet and livestock pharmaceutical manufacturer **Zoetis** underperformed in Q4 after reducing its 2026 outlook, citing fewer veterinary visits by pet owners. Long term, we remain positive on the business given its broad portfolio with multiple growth drivers and a strong pipeline to address several undertreated pet conditions.
- Shares of leading diagnostic lab **Labcorp** declined amid investor concern surrounding lower-than-expected guidance, driven by delays in acquisition closings and weakness in its development pipeline, leading to a restructuring of that business. However, we maintain our conviction in the company's competitive advantages in the diagnostic space, as the company's scale allows it to be a low-cost provider with better-than-average margins.

- Shares of food products manufacturer **Sysco** declined given investor concern surrounding the macro environment for restaurants and the weakening consumer. However, we maintain our conviction in the company's market-leading position and economies of scale with its buying power, wide assortment of products and route density.

New and eliminated positions

- There were no new or eliminated positions in the portfolio during the quarter.

Period and Annualized Total Returns (%)	Since Inception (31 Dec 2011)	10Y	5Y	3Y	1Y	YTD	4Q25
Gross of Fees	12.64	12.17	10.41	13.79	9.22	9.22	1.33
Net of Fees	11.91	11.46	9.75	13.10	8.56	8.56	1.17
Russell 1000 Value Index	11.56	10.53	11.33	13.90	15.91	15.91	3.81
Russell 1000 Index	14.81	14.59	13.59	22.74	17.37	17.37	2.41

Calendar Year Returns (%)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross of Fees	10.00	38.75	10.70	-0.58	19.17	19.26	-7.17	31.76	10.51	27.43	-12.59	17.32	14.97	9.22
Net of Fees	9.23	37.78	9.92	-1.28	18.33	18.48	-7.77	30.90	9.79	26.65	-13.12	16.62	14.28	8.56
Russell 1000 Value Index	17.51	32.53	13.45	-3.83	17.34	13.66	-8.27	26.54	2.80	25.16	-7.54	11.46	14.37	15.91
Russell 1000 Index	16.42	33.11	13.24	0.92	12.05	21.69	-4.78	31.43	20.96	26.45	-19.13	26.53	24.51	17.37

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