Large Cap Concentrated Strategy

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DIAMOND HILL
A First Eagle Investments Company

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Quarterly Snapshot

Summary

The Strategy returned 1.50% (net of fees) compared to a 13.87% return for the Russell 1000 Value Index.

Performance

Stock selection in information technology was responsible for a majority of the Strategy's underperformance in 2Q26, and health care was also a notable detractor. Stock selection in consumer staples and consumer discretionary were the most notable contributors to relative performance.

Key Drivers

We believe above-average equity market valuations are likely to lead to below-average returns over the next five years. However, we continue to find attractive opportunities on a bottom-up basis and are confident we can achieve better-than-market returns over the next five years through active portfolio management.

Market and portfolio review

Artificial intelligence (AI), including the companies benefiting from hundreds of billions of dollars being spent to build capacity to support its adoption, continues to be the most notable theme in equity markets. Within the Russell 1000 Value Index, the information technology sector was by far the best-performing sector in 2Q26 with an astounding 81% return. Industrials (+12%), real estate (+9%) and financials (+9%) also posted strong returns. Energy (-14%) was the worst-performing sector as an agreement to end the war in Iran led to a significant drop in oil prices.

Similar to recent quarters, the Strategys technology exposure—companies we do not own, and to a lesser extent, companies we do own—continued to be the most notable detractor from relative performance. However, the magnitude was even greater with the sector driving a majority of the Strategy's underperformance in 2Q26. Not having exposure to a wide range of technology companies benefiting from AI-related capital expenditures, such as Micron, Sandisk, Western Digital and many others, was a very meaningful headwind to relative performance. Our lack of exposure to Micron alone was responsible for more than 20% of the Strategy's 2Q26 underperformance due to its large weight in the index and enormous return. Texas Instruments provided a modest offset to this headwind, as it is finally seeing a rebound in its key industrial end market. Our software exposure continued to detract from relative performance, as uncertainty around the impact of AI continues to weigh on the industry. While this remains a risk we are monitoring closely, we still believe investors are underestimating the stickiness of Salesforce and Microsoft products among enterprise customers, and that current valuations embed too much pessimism about their future prospects.

Key contributors

- Semiconductor and processor producer **Texas Instruments** saw shares rise after issuing 2Q26 guidance above market expectations, signaling improving demand trends, particularly in industrial and data center end markets.
- **Sysco**, the nation's largest food distributor, saw shares rise as the company recovered from a quick drop it experienced following its announced acquisition of Restaurant Depot.
- **Amazon**, an e-commerce and cloud computing solutions company, saw its shares rise as Amazon Web Services (AWS), the company's cloud computing business, accelerated revenue growth. AWS also appears well positioned for continued growth, supported by capacity additions and a growing backlog.

Key detractors

- Shares of **Zoetis**, an animal health company, underperformed after the company reported flat organic revenue growth and lowered full-year guidance amid softer US companion-animal demand, fewer veterinary visits and a more competitive market. These results heightened concerns that slowing growth in the legacy portfolio could create a near-term earnings gap before newer pipeline products contribute more meaningfully.

- Exploration and production company **ConocoPhilips** saw shares decline after an agreement was reached to end the war between the US and Iran and reopen the Strait of Hormuz. Although the situation in the Middle East remains fragile, the market increasingly viewed the risk of a meaningful supply disruption as diminished, and the war-related risk premium that had supported US exploration and production companies earlier in the year largely dissipated.

- Customer relationship management software provider **Salesforce** saw shares decline after reporting mixed quarterly results, as industry-wide concerns persisted around customers bringing more software capabilities in-house and competition from generative AI tools.

New & Eliminated positions

There were no new or eliminated positions in the portfolio in 2Q26.

Period and Annualized Total Returns (%)

	Since Inception (31 Dec 2011)	10Y	5Y	3Y	1Y	YTD	2Q26
Gross of Fees	12.06	11.67	6.98	11.02	-0.56	-1.57	1.65
Net of Fees	11.33	10.97	6.34	10.35	-1.15	-1.87	1.50
Russell 1000 Value Index	12.30	11.52	11.17	17.79	27.12	16.26	13.87
Russell 1000 Index	15.04	15.30	12.66	20.47	22.02	10.33	15.14

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