Large Cap Strategy

As of 31 Dec 2025

DIAMOND HILL

INVESTED IN THE LONG RUN

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Quarterly Snapshot

Performance

The Strategy returned 1.30% (net of fees) and the Russell 1000 Value Index returned 3.81%.

Key Drivers

Stock selection in health care, information technology, consumer staples and communication services detracted from relative performance. Stock selection in financials and consumer discretionary contributed, along with our underweight to utilities.

Summary

We remain cautious of 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 beneficiaries was responsible for around three-quarters 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.
- 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.
- 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.

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 positions

- Medical device manufacturer **Cooper Companies** is a global leader in contact lenses and women's health and fertility care. We initiated a position as revenue growth deceleration in both segments and transitory executional challenges weighed on valuations. We believe growth in the contact lens industry will remain healthy long term, and the company is positioned to gain modest market share. The company's women's health and fertility segment is facing cyclical headwinds today yet operates in an end market with secular tailwinds, and we believe recent investments in the segment will pay off long term.

- Diversified industrial conglomerate **Dover Corp.** is in the middle of an underappreciated transition from a merger-and-acquisition-focused holding company to a more execution-focused operating company, which we believe creates a long runway for continued margin expansion. Furthermore, recent portfolio moves have increased its exposure to higher growth end markets, and after several years of sluggish growth, various cyclical headwinds seem likely to subside. We initiated a position with the stock trading at a significant discount to our estimate of its intrinsic value.

- We initiated a position in cloud-based web services company **Wix.com** as shares fell on concerns surrounding Generative AI. However, we believe these concerns are somewhat misplaced, as the company's core capabilities, coupled with its strong partner ecosystem and critical back-end functionality for partners, should position it well long term.

- Medical products and health care IT services company **Solventum** was spun off from 3M in April 2024. We believe the company will likely show improved growth and margins as a standalone company, as the business has previously been challenged by years of underinvestment and market share losses. Solventum's new management team is focused on improving revenue growth, and we expect to see more fully optimized research and development and improved sales mix from new products moving forward.

- **EQT** is the lowest-cost dry gas producer in Appalachia, with multi-decade inventory that positions it as a key supplier of US natural gas. The company enjoys numerous structural advantages — scale, contiguous acreage, and increasing control over gathering and transportation following a recent acquisition — that should persist across a wide range of gas price environments. We remain constructive on long-term US natural gas demand, and EQT remains one of the cleanest, lowest-cost dry gas operators in the space.

Eliminated positions

- Shares of heavy construction machinery manufacturer **Caterpillar**, property and casualty insurer **Hartford Insurance Group**, stock exchange **Nasdaq** and health care facilities operator **HCA Healthcare** were sold as its stock prices reached our estimates of intrinsic value.

Period and Annualized Total Returns (%)

	Since Inception (30 Jun 2001)	20Y	15Y	10Y	5Y	3Y	1Y	YTD	4Q25
Gross of Fees	9.73	9.46	11.42	10.89	8.59	11.04	6.19	6.19	1.45
Net of Fees	8.98	8.75	10.73	10.22	7.94	10.37	5.55	5.55	1.30
Russell 1000 Value Index	7.92	8.32	10.78	10.53	11.33	13.90	15.91	15.91	3.81
Russell 1000 Index	9.40	10.94	13.87	14.59	13.59	22.74	17.37	17.37	2.41

Calendar Year Returns (%)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross of Fees	3.60	13.35	37.79	11.58	-0.17	15.27	21.10	-8.81	32.96	9.99	26.50	-12.83	14.37	12.74	6.19
Net of Fees	2.87	12.61	36.89	10.86	-0.82	14.57	20.37	-9.36	32.16	9.33	25.74	-13.35	13.68	12.06	5.55
Russell 1000 Value Index	0.39	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	1.50	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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