

Long-Short Strategy

As of 30 Sep 2026

DIAMOND HILL
A First Eagle Investments Company

Chris Bingaman, CFA
Portfolio Manager

Nate Palmer, CFA, CPA
Portfolio Manager

Brian Fontanella, CFA
Client Portfolio Manager

Quarterly Snapshot

Performance

The Strategy returned 5.14% (net of fees) while the Russell 1000 Index returned 1.80% and the 60/40 Blended Benchmark returned 1.46%.

Key Drivers

On the long side, stock selection in information technology was the largest contributor to relative performance, followed by communication services and consumer discretionary. Stock selection in consumer staples, financials and health care detracted. Our short positions in industrials, consumer discretionary and financials contributed the most to performance, while our short positions in energy, health care and materials detracted.

Summary

We believe above-average equity market valuations are likely to lead to long-term returns below historical averages, but we remain focused on finding individual businesses that are mispriced. If we are in a lower return equity market, alpha generation in each the long and short books is even more important to achieving satisfactory returns over time.

Market and portfolio review

Information technology (+7%) was again among the best performing sectors in the Russell 1000 Index; however, during the quarter we saw a reversal in areas of the sector that have either led or lagged. Software and other legacy technology companies outperformed in 3Q26, while several of the AI-spending beneficiaries that contributed to index returns in recent quarters were weak. Energy (+16%) was the best-performing sector as a resolution to the war in Iran remains elusive. The health care (+7%) and communication services (+3%) sectors also performed well, while the sharp rise in interest rates weighed on utilities (-12%), industrials (-11%) and real estate (-6%).

The portfolio returned to a favorable long-short spread in 3Q26, with our long positions outperforming our short positions by 610 basis points. Importantly, both sides added alpha, with the long book's 4.8% return exceeding the Russell 1000 Index's 1.8% return, and the short book's 1.3% decline trailing it.

On the long side, the portfolio benefited from a rebound in stocks the market has been concerned would be vulnerable to disruption from AI. These included software holdings Salesforce and others that had faced pressure despite strong fundamentals. Additionally, Meta Platforms outperformed after releasing its AI agent, Muse, which has gained rapid adoption. Counting nearly half the world's population as users of its platforms, Meta is in an enviable position

to roll out products like this to its vast user base. Not having exposure to some of the AI-spending beneficiaries also helped, as many of these stocks underperformed in part due to concern of a slowdown in the pace of development of large language models.

Consumer staples stock selection was the largest detractor on the long side, largely due to ready-to-drink (RTD) protein shake manufacturer, BellRing Brands. While the RTD protein category continues to grow and the competitive position of BellRing's Premier Protein remains healthy, profitability remains pressured from higher input costs and a competitive environment that has demanded greater promotional activity. Within industrials, Builders FirstSource, a leading lumber and building materials distributor, underperformed due to the sharp rise in interest rates, which will likely impact demand for new homes. In financials, Aon was a notable detractor after announcing a large, fairly expensive deal to expand its middle markets business.

Short book performance was led by our industrials holdings, Blue Bird and Powell Industries, in particular. Shares of Blue Bird, one of the largest school bus manufacturers in the United States, fell after announcing an acquisition that will require significant investment, which will weigh on near-term profitability. Powell Industries was weak, likely due to broader concern that AI-related demand for its products (breaker boxes, switchgears, etc.) may

slow. In the information technology sector, IBM was also a nice contributor after reporting challenging results driven by weakness in mainframe hardware, which also impacted their software business. Energy was the largest detractor on the short side, with oil tanker shipping company Frontline continuing to benefit from Middle East trade disruptions that are resulting in record profitability. While our consumer discretionary shorts collectively contributed to performance, Garmin and Cheesecake Factory detracted, as both companies continue to see surprisingly strong demand.

Net exposure fell 180 basis points in 3Q26 to 56.3%, which remains modestly below our long-term average. Long exposure fell 310 basis points to 91.1% and short exposure fell 140 basis points to 34.8%, resulting in a 450 basis point decline in gross exposure to 125.8%. We continue to find compelling long opportunities, but with elevated valuations across the market, we want to be confident that the stocks we own will grow more valuable over time, and we do not want to take too much risk when we are not being compensated to do so. It continues to be a fruitful environment to find attractive short opportunities as elevated expectations for a range of stocks have pushed valuations higher.

Key contributors

Long Portfolio

- Shares of **Microsoft** rose after the company reported strong Azure results that included growth reacceleration and strong guidance. Microsoft remains very well positioned to implement AI into its current offerings while also adding enormous AI-computing capacity to lease to customers on attractive economic terms.
- Shares of **Meta Platforms**, the world's largest social media company, outperformed during the quarter, driven by accelerating advertising growth and positive reception of several new consumer AI initiatives.
- AI-powered cybersecurity company **SentinelOne** saw shares outperform during the quarter as growing concerns about the capabilities and potential risks of AI reinforced the critical role of cybersecurity in protecting against increasingly sophisticated threats.

Short Portfolio

- All top contributors were long positions.

Key detractors

Long Portfolio

- Shares of building materials and services supplier **Builders FirstSource** underperformed amid expectations for declining revenue after the Federal Reserve's first rate hike since July 2023 pushed interest and mortgage rates higher, weighing on the outlook for residential construction.

Short Portfolio

- Shares of data storage technology company **Everpure** rose during the quarter following better-than-expected earnings, a second hyperscale customer win and fiscal 2028 guidance that meaningfully exceeded analyst expectations.
- **Frontline** is a global shipping company specializing in the transportation of crude oil. Shares outperformed during the quarter as the ongoing conflict in Iran kept spot tanker rates elevated above expectations, supporting the company's earnings outlook.

New positions

Long Portfolio

- **Stryker** is a medical technology company providing surgical equipment, instruments and implants across orthopedic and neurovascular markets. We initiated a position given the company's broad product portfolio, consistent innovation and strong commercial execution, which we believe position Stryker to continue gaining market share and delivering above-market growth.
- We initiated a position in **Procore Technologies**, a leading provider of construction management software, given its attractive growth opportunities and improving profitability outlook. We believe continued adoption of digital tools, international expansion and greater operating efficiency will drive long-term earnings growth that is currently underappreciated by the market.

Short Portfolio

- We initiated a short position in global retailer **Ralph Lauren** during the quarter, as we believe revenue growth will become increasingly challenged given its reliance on higher average unit prices rather than sales volume growth. While the company has successfully implemented several initiatives to support pricing growth over the past few years, we believe most of these opportunities have largely played out, leading us to expect revenue growth to moderate going forward.

- Industrial distributor **MSC Industrial Direct** was added to the short book during the quarter as we believe growth and profitability will face pressure as pricing benefits and accelerated customer purchases fade. Continued market share losses and limited volume recovery despite a favorable industrial environment suggest current growth and margin expectations are overly optimistic.

Eliminated positions

Long Portfolio

Shares of the following companies were sold to allocate funds to more attractive opportunities.

- Lear
- Johnson Controls International
- Parker-Hannifin
- Pfizer
- Perrigo
- SS&C Technologies Holdings

Short Portfolio

We exited our positions in the following companies as their share prices reached our estimates of intrinsic value.

- Sprouts Farmers Market
- MP Materials

Period and Annualized Total Returns (%)	Since Inception (30 Jun 2000)	20Y	15Y	10Y	5Y	3Y	1Y	YTD	3Q26
Gross of Fees	8.60	7.60	10.04	9.03	8.32	12.91	4.35	-1.20	5.41
Net of Fees	7.51	6.52	8.94	7.94	7.24	11.78	3.31	-1.94	5.14
Russell 1000 Index	8.56	11.16	15.50	15.04	13.01	22.48	15.01	12.30	1.80
60%/40% Blended Index	6.16	7.57	10.03	10.16	9.56	15.22	10.58	8.57	1.46
Russell 1000 Value Index	8.51	8.60	12.98	11.43	11.92	20.07	23.81	19.27	2.61

Calendar Year Returns (%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross of Fees	4.84	10.30	25.03	9.24	0.18	12.34	7.85	-5.46	25.15	1.41	21.40	-6.92	14.27	12.09	21.07
Net of Fees	3.90	9.30	23.91	8.26	-0.72	11.33	6.88	-6.31	24.02	0.50	20.30	-7.75	13.25	10.97	19.86
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
60%/40% Blended Index	1.22	9.75	18.93	7.86	0.75	7.33	12.92	-1.92	19.15	13.30	15.35	-10.86	17.82	16.63	12.12
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

Diamond Hill Capital Management, LLC (DHCM) is an investment adviser registered with the Securities and Exchange Commission and a wholly owned subsidiary of Diamond Hill Investment Group, LLC; registration does not imply a certain level of skill or training. DHCM provides investment management services to individuals and institutions through mutual funds, separately managed accounts, collective investment trusts, a closed-end interval fund and other pooled vehicles including subadvised funds and model delivery programs. Policies for valuing investments, calculating performance and preparing GIPS reports, as well as a complete list and description of all composites, are available upon request. To receive a complete list and description of all Diamond Hill composites and/or a GIPS® report, contact Patrick Trencansky at 614.641.2734, ptrencansky@diamond-hill.com or 325 John H. McConnell Blvd., Suite 200, Columbus, OH 43215. A list of broad distribution pooled funds is available upon request. In addition, a list of limited distribution pooled fund descriptions is available upon request. The Long-Short Composite is comprised of discretionary, fee paying non-wrap accounts managed according to the firm's Long-Short with no leverage equity strategy. The strategy's investment objective is to achieve long-term capital appreciation by investing in companies selling for less than and shorting companies selling for more than our estimate of intrinsic value. The strategy normally invests in securities with a market cap greater than \$2.5 billion at initial purchase for longs and a \$500 million minimum market cap for shorts. The strategy is long biased with typically 40-60 long positions and 25-50 short positions. Targeted net exposure range is 40-75%. As of 30 September 2024, there is no minimum account size. Prior to this date, the minimum account size was \$25 million. 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 US Dollars. Net returns are calculated by reducing the gross returns by the highest stated fee in the composite fee schedule. Only transaction costs are deducted from gross of fees returns. The Russell 1000 Index is the benchmark. This index measures the performance of roughly 1,000 US large-cap companies. The blended Index is shown as additional information. This index represents a 60/40 weighted blend of the Russell 1000 Index and the Bloomberg US Treasury Bills 1-3 Month Index. The Bloomberg US Treasury Bills 1-3 Months Index tracks the market for treasury bills with 1 to 3 months to maturity issued by the US government. The Russell 1000 Value Index measures the performance of US large-cap companies with lower price/book ratios and forecasted growth values. The indexes are unmanaged, market capitalization weighted, include net reinvested dividends, do not reflect fees or expenses (which would lower the return) and are not available for direct investment. Index data source: London Stock Exchange Group PLC. See diamond-hill.com/disclosures for a full copy of the disclaimer. **The performance data quoted represents past performance; past performance does not guarantee 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.

Securities referenced may not be representative of all portfolio holdings. The reader should not assume that an investment in the securities was or will be profitable.

The views expressed are those of Diamond Hill as of 30 September 2026 and are subject to change without notice. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice. Investing involves risk, including the possible loss of principal.