Select Strategy

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DIAMOND HILL
A First Eagle Investments Company

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Quarterly Snapshot

Summary

The Strategy returned 5.08% (net of fees) and the Russell 3000 Index returned 15.44%.

Performance

Stock selection and an underweight to information technology drove most of the portfolio's relative underperformance during the quarter. Strong contributions from several small-mid cap holdings, particularly within industrials and consumer discretionary, partially offset those headwinds.

Key Drivers

We believe equity market valuations remain elevated, particularly among businesses benefiting from the current Artificial Intelligence (AI) spending cycle. We continue to find attractive opportunities among high-quality, cash-generative businesses where long-term fundamentals remain strong despite recent investor skepticism.

Market and portfolio review

Broad US equity markets posted strong performance in the quarter with the Russell 3000 Index returning 15.44%. AI, and the hundreds of billions of dollars being invested to support its adoption, remained the most notable theme in equity markets during 2Q26. Outside of AI, robust corporate earnings and easing geopolitical tensions provided support for equities more broadly, particularly down the market cap spectrum where the Russell 2000 Index returned 21.49%.

Unsurprisingly, technology (+33%) was once again the strongest-performing sector, driven primarily by semiconductor, memory and electrical equipment companies. Other top sectors included industrials (+16%) followed by health care (+10%). Energy lagged (-13%) as oil prices retreated following expectations that geopolitical tensions would not materially disrupt global supply.

Our relative underperformance was largely driven by technology—both the companies we own and those we do not. The cohort of businesses benefiting from AI-related capital spending, such as Micron, Sandisk, Western Digital and many others, continued to produce extraordinary returns, creating a meaningful headwind for portfolios with limited exposure to these areas. While we maintain selective exposure through businesses such as Texas Instruments, we continue to have little exposure to many of the semiconductor and memory companies that have driven benchmark returns as of late.

Within technology, our software exposure was a significant detractor, 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 Adobe products among enterprise customers, and that current valuations embed too much pessimism about their future prospects. However, we have become more concerned with the slowdown of Wix.com's core business and ultimately eliminated the position.

Outside of technology, there were several bright spots in the portfolio, and we benefited from the flexibility afforded by Select's broad investable universe. Several of our strongest contributors—including four of the top five—came from businesses lower down the market-cap spectrum, particularly within industrials and consumer discretionary, demonstrating the value of investing across our full opportunity set.

Key contributors

- **Cimpress**, a technology-enabled mass-customization company that makes personalized print and promotional products for small businesses, delivered solid quarterly results reflecting continued execution against its longer-term financial goals.
- 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.

- Locals' casino owner and operator **Red Rock Resorts** has continued to execute and produce solid results. Property renovations and Phase 3 construction at Durango are all coming along as planned. In addition, shares tend to react positively to lower oil prices given the correlation to lower gas prices and potentially more discretionary income for consumers.

Key detractors

- **Wix.com** is a website design software and provides "business in a box" back-end functionality to small businesses. The company's core business has experienced slowing growth due to AI-driven vibe coding, and after reporting underwhelming 1Q26 results, the company announced a reduction in force and reduced revenue growth guidance for 2026. Given the fundamental headwinds the company is facing, we exited our position to deploy capital to more attractive opportunities.

- 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.

- 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 positions

- We initiated a position in managed care provider **Molina Healthcare** during the quarter. Margins have been pressured in recent years given rising medical costs and lower government reimbursement. However, we believe margins will normalize upward over time as reimbursement rates catch up with underlying cost trends across the insured population.

Eliminated positions

- Shares of website design software provider **Wix.com** were sold as the company's core business has experienced slowing growth due to AI-driven vibe coding. Given the fundamental headwinds the company is facing, we exited our position to deploy capital to more attractive opportunities.

- Shares of regional bank **KeyCorp** and coffee chain **Starbucks** were sold to allocate funds to more attractive opportunities.

Period and Annualized Total Returns (%)

	Since Inception (30 Jun 2000)	20Y	15Y	10Y	5Y	3Y	1Y	YTD	2Q26
Gross of Fees	11.65	10.89	13.14	14.66	10.52	15.18	15.51	4.95	5.29
Net of Fees	10.70	9.96	12.21	13.73	9.63	14.26	14.58	4.53	5.08
Russell 3000 Index	8.58	11.16	13.89	15.06	12.31	20.36	22.82	10.88	15.44
Russell 3000 Value Index	8.57	8.73	11.35	11.48	10.97	17.81	27.78	16.56	14.02

Calendar Year Returns (%)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross of Fees	-0.58	12.70	45.86	12.59	-0.47	10.84	21.26	-11.19	31.91	15.64	34.48	-16.47	31.65	14.05	14.55
Net of Fees	-1.42	11.74	44.62	11.63	-1.32	9.90	20.23	-11.93	30.86	14.72	33.41	-17.14	30.60	13.14	13.64
Russell 3000 Index	1.03	16.42	33.55	12.56	0.48	12.74	21.13	-5.24	31.02	20.89	25.66	-19.21	25.96	23.81	17.15
Russell 3000 Value Index	-0.10	17.55	32.69	12.70	-4.13	18.40	13.19	-8.58	26.26	2.87	25.37	-7.98	11.66	13.98	15.71

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