Diamond Hill All Cap Select Fund Commentary

As of March 31, 2021

Market Commentary

Following a trying 2020, investors (and people in general) were hopeful that 2021 would bring better times. Thus far, we've seen continued distribution of COVID-19 vaccines globally, gradual steps to reopening economies and broad gains in U.S. stocks across sectors.

In Q1, all sectors in the Russell 3000® Index posted positive returns (for the second quarter in a row)—double-digit gains were seen in the market's more cyclical areas, including energy, financials and industrials, on expectations that U.S. economic growth and demand are picking up steam. On the other end of the spectrum were technology stocks—after 45% plus gains in 2020, tech stocks cooled off in Q1 with a gain just above 1%. Performance among mega-cap stocks varied as evidenced by the FAANG stocks, with Facebook up 7%, Amazon down 5%, Apple down 7%, Netflix down 3%, and Alphabet (Google) up 17%.

Small cap stocks were the winners this quarter, advancing 12.7% compared to an 8.1% gain for mid caps and a 5.9% gain for large caps. Value bested growth across the market cap spectrum with the widest dispersion in small caps where value led growth by more than 1,600 basis points. Mid cap value stocks beat their growth counterparts by more than 1,300 basis points, and large cap value stocks outpaced large cap growth by roughly 1,000 basis points.

It's fascinating to note that over the past 13 months, which includes a once-in-a-hundred-years (hopefully) global pandemic, U.S. stocks have advanced 36%, and over the past 12 months they have advanced 62% (as measured by the Russell 3000® Index). Those are incredible gains considering what we've been through over the past year. As valuation-disciplined investors, strong market advances like these make our job of finding stocks trading at discounts to their intrinsic value more challenging, but we continue to look for pockets of the market that are not being rewarded.

TEAM

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Portfolio Manager

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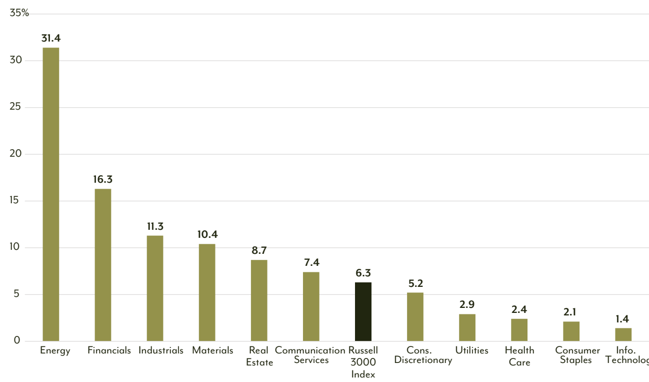
RUSSELL 3000® INDEX SECTOR RETURNS - 1Q21



Source: FactSet.

Performance Discussion

In Q1, the portfolio outpaced the Russell 3000® Index by a wide margin, driven by broad stock selection strength. Our consumer discretionary holdings advanced over 23% as a group this quarter, strongly outpacing those in the index, which gained just 4.7%. We benefited from our outsized financials exposure and from our underweight position in technology. We also benefited from the relative outperformance of our holdings in the industrials and consumer staples sectors. Given that energy stocks were the strongest performers in the index this quarter, our lack of exposure to the sector worked against us.

On an individual holdings basis, top contributors to return included Hanesbrands, American International Group and Red Rock Resorts. Global consumer apparel manufacturer Hanesbrands reported better-than-expected quarterly results and provided commentary implying the underlying business is seeing solid momentum relative to pre-COVID levels. We continue to be impressed with new leadership's thoughtful assessment of the company and initial vision for future growth. We expect cash flow to be resilient and believe the company is well positioned to improve its competitive stance in upcoming years. Insurance firm AIG, our largest holding, continues to improve its underwriting margins. It has also benefited from strong premium growth in its commercial business. Casino operator Red Rock Resorts continues to see demand return as COVID restrictions are loosened and more people are vaccinated. Operating margins remain elevated as management has executed extremely well on its cost management plans. Other top contributors in the quarter included private equity firm KKR & Co. and regional bank Bank OZK.

The portfolio's largest detractors included information technology services provider Cognizant Technology Solutions and consumer apparel manufacturer V.F. Corporation. Information technology services provider Cognizant announced during the quarter that it had reached a settlement to exit a large engagement with a European financial services client. This was a disappointing development amid a turnaround that is otherwise progressing relatively well—on the upside, we view this as a one-time event, not a trend. Aside from the announcement, the company reported good Q4 earnings results. Apparel and footwear company V.F. Corporation lagged this quarter as the market seemed to be concerned with the performance of its largest brand Vans®. The recovery for the brand has been slow due in part to its higher exposure to lockdowns in California and Europe. The company has been proactive in reducing inventory and marketing spend to ensure the long-term brand equity of Vans®. The remainder of its brand portfolio has experienced solid momentum. Our long-term fundamental outlook remains unchanged. Other bottom contributors in the quarter included payment processing and services provider Visa, biopharmaceutical company Pfizer and new holding AbbVie.

Portfolio Activity

We initiated new positions in Facebook, AbbVie and Post Holdings. Facebook is the world's largest social network and owns other large user-base apps such as Instagram, WhatsApp and Messenger. Its family of apps benefits from "network effects" by providing an essential utility to their users, allowing them to connect with friends and share their experiences. We initiated a position in the company based on our belief that its attractive network economics will remain in place over the long term and that the current valuation reflects excessive pessimism related to the near-term impact of regulatory and privacy issues facing the company. We expect Facebook advertising to drive revenue growth with an attractive margin profile.

AbbVie is a global biopharmaceutical company focused on immunology, oncology and aesthetics. In May 2020, the company acquired Allergan, which has a durable product offering that should help lessen the impact of the 2023 patent expiration of AbbVie's largest drug, Humira® (arthritis). The company is also working to offset the patent expiration with two new drugs, Rinvoq™ and Skyrizi™, both intended to replace Humira®. In our view, the company has done a good job of creating a pipeline of new products to fill the Humira® gap and is integrating the Allergan acquisition well, which should provide a more stable revenue stream going forward.

Consumer packaged goods company Post Holdings is one we know well, as we have owned it in the portfolio in the past. We are attracted to this high-quality business run by diligent capital allocators and the diversified nature of the portfolio of businesses Post has accumulated in the packaged foods space. When the stock sold off on fears of weakness in their food service business, we took advantage of what we felt was an attractive entry point.

We exited our positions in diversified technology and industrial company Johnson Controls International and agricultural commodities and products manufacturer Archer-Daniels-Midland, among others.

Market Outlook

After history's largest real GDP decline in early 2020, economic activity has been rebounding—albeit different economic areas are recovering at different paces. Retail spending, for example, has been above 2019 levels for several quarters, while other industries may take years to return to such levels. We expect the recovery to continue in 2021 as vaccines are distributed more broadly and restrictions on day-to-day life are eased.

The fiscal and monetary stimulus implemented in the past 12 months is unprecedented, and the Fed made it clear that it will continue doing what it takes to support the U.S. economy—including its intention to keep short-term interest rates near zero through 2023. President Biden also approved nearly $2 trillion of additional COVID-19 relief and is considering additional spending that could focus on areas like infrastructure, jobs and climate change. Along with real GDP growth above historic averages, corporate earnings are expected to increase dramatically in 2021 and reach new highs. That said, a sharp economic rebound, along with continued stimulus, could spur a rise in inflation. Higher inflation and the interest rates that may come with it could be a headwind for equity markets and are risks we are monitoring closely.

Although equity markets have recently hit all-time highs and corporate earnings may soon do the same, the after-effects of COVID-19 will likely linger more acutely for certain industries. While certain businesses have seen unprecedented spikes in demand, others have seen the opposite and have had to borrow heavily to survive. We have been focused on how businesses have managed their balance sheets and liquidity situations through the crisis, and how long-term competitive positions may have been impacted.

With the distribution of multiple, highly efficacious vaccines progressing, it is expected that the spread of COVID-19 will continue to slow over the next several quarters. Despite the risk of new variants, equity markets seemingly reflect much of the economic recovery to come, with a forward P/E multiple at a historically elevated level. From current levels, equity market returns over the next five years are expected to be below historic norms.

Our primary focus is always on achieving value-added results for our existing clients, and we believe we can achieve better-than-market returns over the next five years through active portfolio management.

MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF MARCH 31, 2021

AbbVie, Inc.	2.3%	KKR & Co., Inc. (Cl A)	4.5%
American International Group, Inc.	6.6	Pfizer, Inc.	2.3
Bank OZK	2.2	Post Holdings, Inc.	2.1
Cognizant Technology Solutions Corp. (Cl A)	2.9	Red Rock Resorts, Inc. (Cl A)	3.2
Facebook, Inc. (Cl A)	3.3	V.F. Corp.	2.0
Hanesbrands, Inc.	4.5	Visa, Inc. (Cl A)	1.3

PERIOD AND ANNUALIZED TOTAL RETURNS AS OF MARCH 31, 2021

	SINCE INCEPTION (12/30/05)	15-YR	10-YR	5-YR	3-YR	1-YR	YTD	1Q21	EXPENSE RATIO
ALL CAP SELECT FUND									
Class I	9.87%	9.81%	12.80%	15.97%	15.40%	100.02%	15.21%	15.21%	0.87%
BENCHMARKS									
Russell 3000 Index	10.26	10.05	13.79	16.64	17.12	62.53	6.35	6.35	—
Russell 3000 Value Index	7.97	7.65	10.91	11.87	10.99	58.38	11.89	11.89	—

Risk Disclosure: Because this Fund expects to hold a concentrated portfolio of a limited number of securities, a decline in the value of these investments would cause the Fund's value to decline to a greater degree than a less concentrated portfolio. There are specialized risks associated with small capitalization issues, such as market illiquidity and greater market volatility, than large capitalization issues.

The views expressed are those of the portfolio managers as of March 31, 2021, are subject to change and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice.

The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the most recent month-end, within 7 business days, at diamond-hill.com.

Performance returns assume reinvestment of all distributions. Returns for periods less than one year are not annualized. These total return figures may reflect the waiver of a portion of a Fund's advisory or administrative fees for certain periods. Without such waiver of fees, the total returns would have been lower. Class I shares include Investor share performance achieved prior to the creation of Class I shares.

Fund holdings subject to change without notice.

The Russell 3000 Index is an unmanaged market capitalization-weighted index comprised of the 3,000 largest U.S. companies by total market capitalization. The Russell 3000 Value Index is an unmanaged market capitalization-weighted index measuring the performance of the broad value segment of the U.S. equity universe including those Russell 3000 Index companies with lower expected growth values. The Russell 1000 Index is an unmanaged market capitalization-weighted index comprised of the largest 1,000 companies by market capitalization in the Russell 3000 Index, which is comprised of the3,000 largest U.S. companies by total market capitalization. The Russell 1000 Value Index is an unmanaged market capitalization-weighted index measuringthe performance of the large cap value segment of the U.S. equity universe including those Russell 1000 Index companies with lower expected growth values. These indices do not incur fees and 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.

It should not be assumed that an investment in the securities identified was or will be profitable. The holdings identified do not represent all of the securities purchased, sold, or recommended for the adviser's clients. To obtain the contribution calculation methodology and a complete list of every holding's contribution to the overall portfolio's performance during the measurement period, please contact 855.255.8955 or info@diamond-hill.com.

An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other important information about the Fund(s) can be found in the Fund's(s) prospectus or summary prospectus which can be obtained at diamond-hill.com or by calling 888.226.5595. Please read the prospectus or summary prospectus carefully before investing. The Diamond Hill Funds are distributed by Foreside Financial Services, LLC (Member FINRA). Diamond Hill Capital Management, Inc., a registered investment adviser, serves as Investment Adviser to the Diamond Hill Funds and is paid a fee for its services. Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.