

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 2000® Index posted positive returns. Strong double-digit gains were seen in the market's more cyclical areas, including energy, consumer discretionary, materials, financials and industrials, on expectations that U.S. economic growth and demand are picking up steam. On the other end of the spectrum were health care, utilities and technology stocks. After 44% and 39% gains in 2020, health care and technology cooled off in Q1 with 0.4% and 5.4% returns.

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. As they did in Q4 2020, value bested growth across the market cap spectrum with the widest dispersion in small caps where value led growth by over 1600 basis points. Mid cap value stocks beat their growth counterparts by more than 1300 basis points, and large cap value stocks outpaced large cap growth by 1032 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.



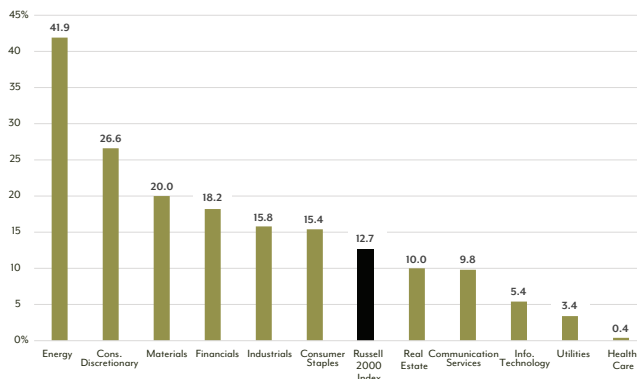
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RUSSELL 2000® INDEX SECTOR RETURNS - 1Q21



Source: FactSet.

Performance Discussion

The portfolio outpaced the Russell 2000® Index in the quarter with positive absolute results across all sectors. Our underweight positioning in health care and technology along with strong performances among our health care holdings aided relative returns. Of particular note was financials—our largest absolute and relative sector exposure—and specifically banks, where solid earnings for our holdings along with optimism from vaccine rollouts, reopening of the economy, the prospect of rising rates, an improvement in credit, and the possibility of increased M&A activity provided a tailwind. Our consumer discretionary and consumer staples exposures were our two largest relative detractors, with results in aggregate weighed down by select company-specific issues.

On an individual holdings basis, top contributors to return included bank holdings Sterling Bancorp, Bank OZK and BOK Financial. In general, banks had been better positioned heading into the COVID-19-related shutdowns than during the financial crisis due to regulatory requirements for higher capital levels and more prudent underwriting. That said, our holdings tend to have carved out a specialized niche and/or have a strong geographic footprint, have proven to be conservative underwriters and have demonstrated their ability to compound returns and grow intrinsic value. Sterling Bancorp, our largest holding, focuses on building relationships with small and middle-market companies in the Long Island market that larger banks tend to overlook. Sterling also appears to be astute in making acquisitions and allocating capital, having executed well on three larger acquisitions since 2013 and

opportunistically repurchasing shares, all while investing in technology necessary to meet clients' changing demands. Second-largest holding Bank OZK has grown to be a respected partner in commercial real estate development. Its real estate specialty group tackles highly complex real estate transactions and is a conservative underwriter, as shown by its minimal credit losses over many years of experience.

Red Rock Resorts was another top contributor in Q1, as it has been since the pandemic-related market bottom in March 2020. Red Rock controls over half the Las Vegas locals market, where government legislation restricting greenfield development has effectively created a duopoly. Through a tough operating environment, management has meticulously controlled costs and improved the balance sheet and is delivering record margins. We believe there is tremendous pent-up demand waiting to be released amid post-pandemic reopening—on top of favorable conditions for economic expansion in Las Vegas, including an attractive tax environment driving in-migration.

Other top contributors in the quarter included ProAssurance Corp., a property and casualty company specializing in professional liability insurance.

Bottom contributors included PROG Holdings, the largest virtual lease-to-own provider in the U.S. Weaker traffic at PROG's brick-and-mortar partners and supply chain issues impacted availability of furniture and appliances to lease. We anticipate these issues should improve later in 2021. Additionally, an inquiry into lease-to-own providers by California's relatively new Department of Financial Protection and Innovation may lead to an increased regulatory burden. However, management is executing well on its integration of e-commerce capabilities with existing partners and is looking to expand with third-party platforms. Further, the business model is attractive as it is relatively asset-light and generates strong and consistent free cash flow.

Carter's, which sells baby clothes under brands like Carter's and OshKosh, was another bottom contributor. Carter's stock slumped in Q1 when forward guidance did not meet investors' expectations and management outlined a lower long-term margin profile than previously communicated. In our view, Carter's is the market-share leader in infant and baby apparel with strong brand recognition across both its wholesale platform and omni-channel retail presence. This competitive position should enable Carter's to transition and thrive in the more digitally driven environment of our future.

Another bottom contributor, homebuilder Green Brick, appears to be facing challenges in getting homes built fast enough against a backdrop of still record-low mortgage interest rates and rising homeownership among millennials—a case of too much demand

causing some delays in closing. We believe this issue should eventually pass, and Green Brick remains well positioned thanks in part to its operations in prime real estate locations in Dallas and Atlanta.

Other bottom contributors included Bermuda-based reinsurer Renaissance Re and Stericycle, the largest provider of regulated medical waste management in the U.S.

Portfolio Activity

We added just one new name to the portfolio in Q1—First Interstate BancSystem (FIBK). FIBK, based in Billings, MT, fits the description of having carved out a specialized niche and having a strong geographic footprint. Thanks to a recent technology investment cycle, it appears positioned to benefit in the years ahead in its attractive, growing markets. We exited landscape equipment company Toro as it approached our estimate of intrinsic value. We sold airline Alaska Air, insurance broker Brown & Brown and Washington D.C.-focused REIT JBG Smith in favor of reallocating to higher conviction names.

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.

Diamond Hill Small Cap Fund Commentary

As of March 31, 2021

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

Bank OZK	4.6%	PROG Holdings, Inc.	1.8%
BOK Financial Corp.	2.4	Red Rock Resorts, Inc. (CI A)	4.5
Carter's, Inc.	0.9	RenaissanceRe Holdings Ltd.	0.9
First Interstate BancSystem, Inc. (CI A)	0.6	Stericycle, Inc.	1.5
Green Brick Partners, Inc.	2.0	Sterling Bancorp	5.0
ProAssurance Corp.	2.8		

PERIOD AND ANNUALIZED TOTAL RETURNS AS OF MARCH 31, 2021

	SINCE INCEPTION (12/29/00)	20-YR	15-YR	10-YR	5-YR	3-YR	1-YR	YTD	1Q21	EXPENSE RATIO
SMALL CAP FUND										
Class I	10.15%	9.84%	6.66%	8.07%	8.63%	6.56%	81.18%	15.97%	15.97%	0.97%
BENCHMARKS										
Russell 2000 Index	9.27	9.76	8.83	11.68	16.35	14.76	94.85	12.70	12.70	—
Russell 2000 Value Index	9.46	9.53	7.38	10.06	13.56	11.57	97.05	21.17	21.17	—

Risk Disclosure: There are specialized risks associated with small and mid 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. 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 2000 Index is an unmanaged market capitalization-weighted index comprised of the smallest 2,000 companies by market capitalization in the Russell 3000 Index, which is comprised of the 3,000 largest U.S. companies by total market capitalization. The Russell 2000 Value Index is an unmanaged market capitalization-weighted index measuring the performance of the small cap value segment of the U.S. equity universe including those Russell 2000 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.