Diamond Hill Mid Cap Fund Commentary

As of June 30, 2021

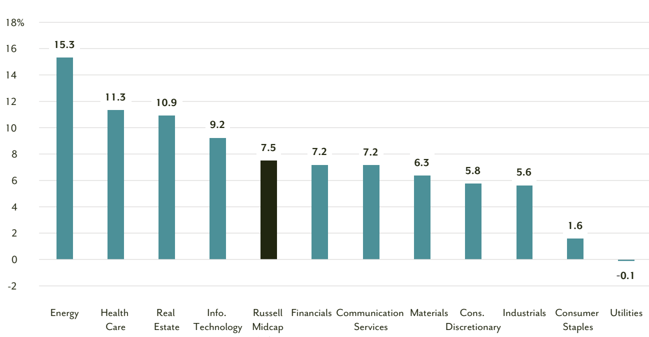
Market Commentary

Equity markets moved higher in Q2, closing out the first half of the year with double-digit gains as the economic recovery picked up steam. Vaccination rates continued rising—albeit at a slower pace—and many states lifted mask mandates giving consumers more confidence that conditions are improving. The White House announced a tentative infrastructure spending deal, which contributed to the rosy economic outlook. With a backdrop of improving economic conditions, inflation ticked up, though it remains unclear whether it's transitory or the beginning of a longer-term trend.

Most sectors in the Russell Midcap® Index advanced in Q2, with double-digit gains in energy (15.3%), health care (11.3%) and real estate (10.9%). With a strong economic rebound and expectations for rising inflation, the energy sector continues seeing strong gains. Relative laggards during Q2 were the market's more defensive sectors, including consumer staples and utilities, which returned 1.6% and -0.1%, respectively.

In a reversal from Q1, the Russell 1000® Index posted the strongest gains (up 8.5%) followed closely by the Russell Midcap® Index (up 7.5%) and then the small cap Russel 2000® Index (up 4.3%). Also changing course this quarter was the preference for value—the growth indices' advance roughly doubled value's in the large and mid cap market segments. Interestingly, the small cap value index slightly edged out small growth. The value indices across all market cap segments still lead by a wide margin year to date due to their strong Q1 performance.

RUSSELL MIDCAP® INDEX SECTOR RETURNS - 2Q21



Source: FactSet, as of 6/30/2021.

TEAM

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Performance Discussion

The portfolio trailed the Russell Midcap® Index in the quarter, though it still delivered solid absolute results amid strong market returns and remains ahead of the benchmark year to date. Strength among our consumer discretionary and utilities holdings aided returns. Conversely, weakness among our technology holdings weighed on results, as did our below-benchmark exposure to this index-beating sector. Our financials exposure was also a headwind. Longer term, we maintain conviction in our exposure to banks—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.

On an individual holdings' basis, top contributors to return included Red Rock Resorts, a casino operator controlling over half the Las Vegas locals market. Red Rock is benefiting from pent-up demand, but it also executed well through the pandemic—controlling costs by selectively reopening facilities, improving its balance sheet and delivering record margins.

WESCO, a leading distributor of electrical, industrial and communications materials, was a top contributor as it continues making progress on its integration of Anixter—an acquisition that closed in early 2020—and is strategically paying down merger-related debt. With increased scale and added synergy from its acquisition, we believe WESCO is well positioned as it generates strong free cash flow.

Self-storage REIT CubeSmart was another top contributor in Q2 on solid internal growth and better than expected earnings. Self-storage has benefited from increased migration and higher housing demand due to the pandemic, resulting in higher occupancy and strong rent growth.

Other top contributors in Q2 included regional bank First Republic and Cimarex Energy, an independent oil and gas exploration and production company operating primarily in the Permian Basin and Mid-Continent region.

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Bottom contributors included Alaska Air. The airline industry overall gave back some gains in Q2 following strong returns over the past three quarters. Alaska Air has been the industry's best run airline for a number of years with a strong balance sheet that helped it weather the pandemic-related downturn and a history of smart capital allocation. We believe Alaska Air, along with our other travel & leisure names, remains well positioned to benefit from pent-up demand as vaccine distribution expands and capacity restrictions are removed.

IT services provider Cognizant Technology Solutions has experienced a higher-than-normal level of employee attrition given the highly competitive nature of the industry right now, which has hampered near-term revenue growth. However, we believe the impact on long-term intrinsic value is limited.

Shares of investment and insurance company Hartford Financial Services declined this quarter after Chubb abandoned its pursuit of Hartford as an acquisition target.

Other bottom contributors to return in Q2 included mortgage servicing company Mr. Cooper Group and consumer apparel manufacturer Hanesbrands.

Portfolio Activity

With continued gains in equity markets, our process is uncovering fewer opportunities selling at a discount to long-term intrinsic value. That said, we continue to find small pockets of interesting ideas. In Q2, we added one new holding to the portfolio—insurance company Alleghany Corporation. Alleghany has been executing well in its reinsurance business, capitalizing on positive trends in the property & casualty insurance industry. However, its non-insurance subsidiaries are now growing faster, with both sides of the business experiencing increasing revenues coupled with improving margins.

We exited freight transportation management company Hub Group as it approached our estimate of intrinsic value and asset management firm Franklin Resources in favor of reallocating to higher conviction names.

Market Outlook

Vaccination progress globally has allowed economies to reopen and consumers to dust off the cobwebs of being in a prolonged lockdown. Many economic sectors are recovering quickly as pent-up demand is unleashed. That said, some industries may take years to return to prior levels, e.g., business travel. Additionally, the COVID-19 Delta variant, which has caused a spike in cases and hospitalizations, could be a deterrent to further economic progress as we move into the second half of the year.

Fiscal and monetary stimulus remains at unprecedented levels. The White House is pursuing additional spending measures to support the economy, including the aforementioned infrastructure plan. The Fed remains extraordinarily accommodative, but its recent comments acknowledged stronger economic activity and an uptick in inflation. The Fed's outlook was mostly unchanged in its recent meeting, which seemed to curb some inflation concerns. Rate hikes are now expected to occur in 2023 rather than 2024, but continued economic strength, federal stimulus, wage growth and supply/demand tightness could alter that course and force the Fed to pull the timeframe forward. Rising inflation and the higher interest rates that may come with it could be a headwind for equity markets and are risks we are monitoring closely.

Along with real GDP growth above historic averages, corporate earnings are expected to come in markedly higher in 2021. Equity markets seem to fully reflect the economic progress with forward P/E multiples near historic highs. From current levels, equity market returns over the next five years are expected to be in the mid-single digit range.

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 JUNE 30, 2021

Alaska Air Group, Inc.	1.5%	**Hanesbrands, Inc.**	1.9%
Alleghany Corp.	1.0	**Hartford Financial Services Group, Inc.**	1.7
Cimarex Energy Co.	1.9	**Mr. Cooper Group, Inc.**	1.2
Cognizant Technology Solutions Corp. (Cl A)	1.3	**Red Rock Resorts, Inc. (Cl A)**	4.0
CubeSmart	3.3	**WESCO International, Inc.**	2.7
First Republic Bank	3.0		

PERIOD AND ANNUALIZED TOTAL RETURNS AS OF JUNE 30, 2021

	SINCE INCEPTION (12/31/13)	5-YR	3-YR	1-YR	YTD	2Q21	EXPENSE RATIO
MID CAP FUND							
Class I	8.94%	10.65%	9.54%	56.52%	20.39%	5.96%	0.78%
BENCHMARKS							
Russell Midcap Index	12.43	15.62	16.45	49.80	16.25	7.50	—
Russell Midcap Value Index	10.23	11.79	11.86	53.06	19.45	5.66	—

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 June 30, 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.

Fund holdings subject to change without notice.

The Russell Midcap Index is an unmanaged market capitalization-weighted index measuring performance of the 800 smallest companies in the Russell 1000 Index. The Russell 1000 Index measures performance of the largest 1,000 companies in the Russell 3000 Index. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies by total market capitalization. The Russell Midcap Value Index is an unmanaged market capitalization-weighted index measuring the performance of the mid cap value segment of the U.S. equity universe including those Russell Midcap 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.

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 the 3,000 largest U.S. companies by total market capitalization. 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.