

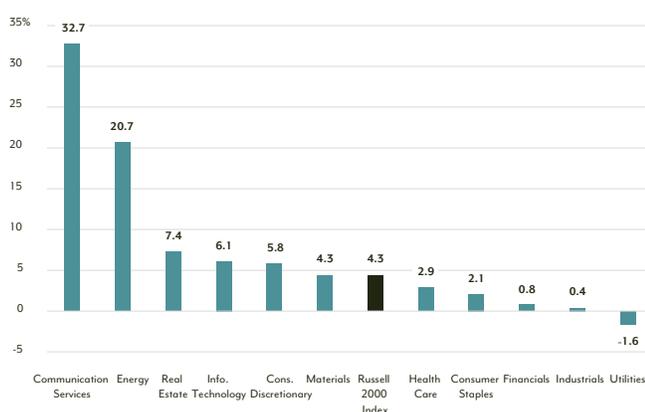
Market Commentary

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 2000® Index advanced in Q2, with double-digit gains in communication services (32.7%) and energy (20.7%). With a strong economic rebound and expectations for rising inflation, the energy sector continues seeing strong gains. Relative laggards during Q2 were financials and industrials, returning just 0.8% and 0.4% respectively, and the more defensive utilities sector, returning -1.6%.

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 Russell 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 2000® INDEX SECTOR RETURNS - 2Q21



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



TEAM

Aaron Monroe, CFA
Portfolio Manager

Chris Welch, CFA
Portfolio Manager

Kristen Sheffield, CFA, CIPM
Portfolio Specialist

Performance Discussion

The portfolio performed roughly in line with the Russell 2000® Index in the quarter, delivering solid absolute results and remaining ahead of the benchmark year to date. Stock selection was overall additive to results, led by strong performances among our consumer discretionary and real estate holdings. Conversely, stock selection was weak in communication services, due largely to the runaway performance of movie theater operator AMC Entertainment—a stock we do not own. AMC’s share price, along other stocks mentioned on social media platforms such as Reddit (WallStreetBets) and TikTok, have benefited in the near term from momentum, “meme-stock” trading rather than any positive change in its long-term intrinsic value, in our view.

Our overweight positioning to financials, which trailed the benchmark in Q2, was also a headwind. Looking forward, 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.

Though our financials holdings overall trailed the benchmark in Q2, Sterling Bancorp was a top contributor as it announced it had agreed to an all-stock merger of equals with Webster Bank—a testament to Sterling’s strong position in its Long Island market, focusing on building relationships with small and middle market companies that larger banks tend to overlook.

Other top contributors included self-storage REIT CubeSmart and oil and gas exploration and production company Bonanza Creek Energy, which announced two well received mergers in Q2.

Bottom contributors included Allegiant Travel. The airline industry overall gave back some gains in Q2 following strong returns over the past three quarters. We believe Allegiant, 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. Leisure travel, where Allegiant is focused, has been recovering first, and Allegiant is benefiting from having a more flexible route structure than peers.

Cal-Maine, the largest producer and distributor of fresh eggs in the U.S., was another bottom contributor. The environment for shell eggs has been challenging over the past 12 months. During 2020, producers that typically sell into restaurants and cafeterias responded to the demand shock by shifting into grocery stores where Cal-Maine operates—pressuring pricing. The economic reopening has improved the oversupply, but pricing remains challenged as an increase in eating away from home has pressured demand. We continue to think the long-term opportunity for Cal-Maine is in its cage-free production capabilities. Cal-Maine's ongoing investments here have depressed free cash flow in the near term but should bear long-term fruit, particularly as California looks to go 100% cage-free in 2022.

Medical liability insurance company ProAssurance Corp., detracted in Q2 as the potential for increased inflation raised concerns of higher loss costs. However, we remain confident in its competitive positioning, the strength of its underwriting, its pricing power and its ability to integrate NORCAL Mutual—an acquisition completed in May that will expand ProAssurance's product capabilities and provide greater geographic scale.

Other bottom contributors included regional bank Live Oak Bancshares and mortgage servicing company Mr. Cooper Group.

Portfolio Activity

We added four new holdings to the portfolio in Q2. Chase Corp, Concrete Pumping Holdings, Allied Motion Technologies and UFP Technologies.

Chase Corp is a high quality, niche-market specialty chemicals company offering solutions that improve performance and reliability of its customers' products. We anticipate its strong cash flow and healthy balance sheet can lead to targeted M&A while the company also focuses on cost management and operating efficiency to continuously improve its margin profile.

Concrete Pumping Holdings is the largest concrete pumping service provider in the U.S. and U.K. with commanding market share. Operating through a variety of subsidiaries, it offers a strong margin profile with excellent cash on cash returns and a long runway for quality capital deployment.

Allied Motion designs, manufactures and sells precision and specialty-controlled motion products for a variety of motor types and end-market applications. Allied Motion's management is experienced and has executed well, and there is long-term opportunity in increasing utilization and innovative use cases for small motors and motion-control technologies. The company's innovative capability to develop custom-engineered solutions that integrate its products positions it well to consolidate a fragmented market and gain leadership in profitable niches.

UFP Technologies is an innovative designer and custom manufacturer of components, subassemblies, packaging and products primarily for the medical market—a higher margin, higher growth segment. UFP also continues innovating in non-medical areas such as packaging, safety and protective gear, and other diverse lightweight-need applications. Its experienced management team is focused on expanding margins through product-mix optimization and improving operating efficiencies.

We exited freight transportation management company Hub Group as it approached our estimate of intrinsic value and student housing REIT American Campus Communities 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.

Diamond Hill Small Cap Fund Commentary

As of June 30, 2021

MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF JUNE 30, 2021

Allegiant Travel Co.	1.8%	Live Oak Bancshares, Inc.	1.7%
Allied Motion Technologies, Inc.	0.5	Mr. Cooper Group, Inc.	2.0
Bonanza Creek Energy, Inc.	1.5	ProAssurance Corp.	2.5
Cal-Maine Foods, Inc.	3.4	Red Rock Resorts, Inc. (CI A)	5.1
Chase Corp.	1.0	Sterling Bancorp	4.6
Concrete Pumping Holdings, Inc. (CI A)	0.5	UFP Technologies	0.4
CubeSmart	2.9	WESCO International, Inc.	2.7

PERIOD AND ANNUALIZED TOTAL RETURNS AS OF JUNE 30, 2021

	SINCE INCEPTION (12/29/00)	20-YR	15-YR	10-YR	5-YR	3-YR	1-YR	YTD	2Q21	EXPENSE RATIO
SMALL CAP FUND										
Class I	10.25%	9.14%	7.15%	8.58%	9.12%	7.47%	62.19%	20.86%	4.22%	0.97%
BENCHMARKS										
Russell 2000 Index	9.38	9.26	9.51	12.34	16.47	13.52	62.03	17.54	4.29	—
Russell 2000 Value Index	9.58	9.17	7.90	10.85	13.62	10.27	73.28	26.69	4.56	—

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. 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.

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 Midcap Index is an unmanaged market capitalization-weighted index measuring performance of the 800 smallest companies in the Russell 1000 Index.