

## Market Commentary

As we closed out the third quarter, September marked the worst month for equity returns since the pandemic-induced selloff in March 2020. Investor concerns mounted as the delta-variant resurgence in COVID-19 cases, rising inflation and supply chain disruptions impacted economic growth expectations. Also dampening market sentiment in Q3 was continued wrangling in Washington over the debt ceiling and a massive infrastructure deal, as well as concerns over debt-laden property developer China Evergrande Group.

Equity markets ended the third quarter mixed—large-cap stocks (as measured by the Russell 1000® Index) eked out a small gain (up 0.2%), while mid- and small-cap stocks were in the red (down -0.9% and -4.4%, respectively). The Russell growth style indices held up better than their value counterparts in the large- and mid-cap spaces, but the reverse was true for small caps. The Russell 2000® Value Index fell -3.0% during the quarter compared to the Russell 2000® Growth Index's -5.7% decline. Year to date, equities across the market-cap spectrum are still holding on to double-digit gains, and the value indices remain ahead of their growth counterparts, with the widest margin at the small end of the cap spectrum.

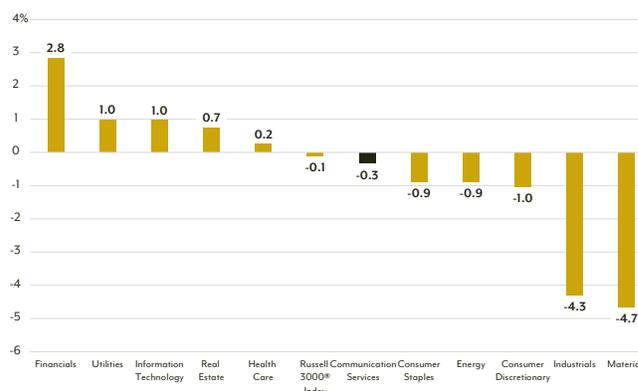
In the Russell 3000® Index, the best performing sectors in Q3 were financials (+2.8%), utilities (+1.0%) and technology (+1.0%). The real estate and health care sectors also posted small gains. On the downside, materials and industrials were the biggest losers with declines in excess of -4%. Energy stocks also took a breather, along with stocks in both consumer sectors. Year to date, energy stocks have been the clear winners with 45%-plus gains as economic activity resumed. The financials and real estate sectors have benefited from higher interest rate expectations, helping stocks in these sectors advance more than 20% thus far in 2021. Defensive areas of the market such as utilities and consumer staples have lagged the impressive returns of other sectors but are still positive for 2021.

## TEAM

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## RUSSELL 3000® INDEX SECTOR RETURNS - 3Q21



Source: FactSet, as of 9/30/2021.

## Performance Discussion

The portfolio outpaced the Russell 3000® Index in Q3 by a decent margin. Stock selection was positive in several sectors, including financials, consumer discretionary, industrials and health care. On the downside, our relative results were hampered by the underperformance of our stocks in the technology and communication services sectors.

Our top contributors to return this quarter were Mr. Cooper and American International Group. Mortgage servicing company Mr. Cooper continues to make smart capital allocation decisions and execute well in its core business. Coincident with the company's Q2 earnings release, Mr. Cooper authorized a \$500 million share repurchase—enough for roughly 15% of the company. Subsequent to that announcement, the company repurchased 13% of its shares from private equity firm KKR.

Property and casualty insurance company American International Group (AIG) continues to advance the turnaround of its property & casualty segment and makes progress toward a separation of the life & retirement business. During the quarter, the company announced a partnership with Blackstone to monetize a portion of its ownership in the life & retirement business at an attractive price.

Casino operator Red Rock Resorts, industrial company WESCO International and pharmaceutical company Pfizer were also top contributors. Red Rock controls over half the Las Vegas locals' casino market and executed very well amid pandemic-related restrictions—controlling costs by selectively reopening facilities. Its margins have proven resilient as it continues benefiting from strong demand for gaming across the Las Vegas locals' market, delivering record cash flows.



WESCO is a leading distributor of electrical, industrial and communications materials. Its acquisition of one of its largest competitors is progressing well. Scale is critical for distributors, and Wesco is now the largest player in a fragmented market, giving it increased bargaining power with suppliers, opportunities for cost cutting and better access to products than smaller peers who are struggling with supply chain issues. We believe Wesco is well positioned to continue taking share.

Shares of global pharmaceutical company Pfizer outperformed in Q3 due to positive investor sentiment about the company's COVID-19 vaccine sales. Although we are pleased with the recent stock performance, COVID-19 vaccine sales are not a driver of our long-term thesis. We continue to like Pfizer's long-term prospects as the company has reshaped its business, divesting non-core assets to create a more innovative biopharmaceutical company. Pfizer has a distant patent cliff, an industry-leading product offering, a decent pipeline and cash flow to invest in new pipeline assets.

Bottom contributors this quarter included Kirby Corporation, V.F. Corporation and Cimpress. Kirby, a U.S.-based tank barge transporter of bulk liquid products, retreated from its Q2 highs. The recovery in hydrocarbon product volumes slowed due in part to delta-variant related disruptions and an active hurricane season in the Gulf Coast, which restricted refinery operations.

The share price of apparel and footwear company V.F. Corporation declined in Q3 as the market appeared to be concerned with near-term impacts related to supply chain disruptions, freight cost increases and lingering pressure dampening the recovery for its Vans® brand due to its outsized brick-and-mortar exposure. The remainder of its brand portfolio has experienced solid momentum. We view the long-term prospects and multi-year fundamental outlook as unchanged.

Cimpress makes customized print, signage, apparel, gifts, identity merchandise, packaging and other products for a variety of businesses. The company continues to be impacted by the COVID-19 pandemic, which is limiting demand for many of its products. Despite the headwinds, Cimpress reported good quarterly earnings results.

Other bottom contributors in Q3 included mobile video gaming publisher Zynga and global consumer apparel manufacturer Hanesbrands.

## Portfolio Activity

We exited several positions this quarter including W. R. Grace & Co. and Charles Schwab. W. R. Grace & Co. was acquired in an all-cash transaction in Q3, while Charles Schwab's stock price reached our estimate of intrinsic value. We also sold Cal-Maine Foods and Zynga in favor of more attractive opportunities.

We redeployed a portion of that capital into Humana, a leading provider of health care benefit plans in the U.S. whose member enrollment is concentrated in Medicare Advantage. We believe Humana is well positioned to maintain its market leadership as enrollment within the broader Medicare-eligible population continues to rise. The company has made investments into its brand and health care providers, allowing it to maintain an edge in benefits offered. We know the company well and were able to take advantage of recent share price weakness—largely due to political noise and short-term medical utilization uncertainty—to initiate a position at an attractive valuation.

## Market Outlook

Vaccination progress globally has allowed economies to reopen, leading to a sharp economic recovery. While we expect the recovery will continue into 2022, an uptick in coronavirus cases, supply chain issues and higher input costs may slow the earnings recovery for many businesses. In some areas, price increases due to short-term supply/demand imbalances may eventually prove transitory, while others may persist for a longer period.

The sharp economic rebound in the U.S., along with continued stimulus, wage growth and instances of supply/demand tightness, has resulted in broader inflation. To the extent this is sustained, rising inflation and higher interest rates could be a headwind for equity markets and are risks we are monitoring closely.

Economic stimulus remains at unprecedented levels. President Biden and Congress are pursuing additional spending measures to support the economy, and although Fed policy remains extraordinarily accommodative, the discussion is beginning to center on how and when to pull back on monetary stimulus via tapering and eventually interest rate hikes. The Fed has acknowledged stronger economic activity and an uptick in inflation—if that continues it may force the Fed to act sooner and more aggressively than is currently anticipated.

Along with real GDP growth above historic averages, corporate earnings have increased dramatically in 2021 and continue to reach new highs. Much of the recovery to date seems fully reflected in equity markets with forward P/E multiples near historic highs. From current levels, equity market returns over the next five years are likely 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 All Cap Select Fund Commentary

As of September 30, 2021

## MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF SEPTEMBER 30, 2021

American International Group, Inc.	6.9%	Mr. Cooper Group, Inc.	7.0%
Cimpress PLC	3.2	Pfizer, Inc.	2.6
Hanesbrands, Inc.	5.6	Red Rock Resorts, Inc. (CI A)	4.8
Humana, Inc.	2.0	V.F. Corp.	2.8
Kirby Corp.	3.6	WESCO International, Inc.	7.0
KKR & Co., Inc. (CI A)	4.4		

## PERIOD AND ANNUALIZED TOTAL RETURNS (%) AS OF SEPTEMBER 30, 2021

	SINCE INCEPTION (12/30/05)	15-YR	10-YR	5-YR	3-YR	1-YR	YTD	3Q21	EXPENSE RATIO
ALL CAP SELECT FUND									
Class I	10.04%	10.26%	15.55%	16.16%	15.99%	54.34%	23.82%	1.05%	0.87%
BENCHMARKS									
Russell 3000 Index	10.46	10.44	16.60	16.85	16.00	31.88	14.99	-0.10	—
Russell 3000 Value Index	7.99	7.52	13.48	10.94	9.94	36.64	16.58	-0.93	—

**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 September 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. 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 the 3,000 largest U.S. companies by total market capitalization. The Russell 1000 Value Index is an unmanaged market capitalization-weighted index measuring the 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.**

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. The Russell 2000 Growth Index is an unmanaged market capitalization-weighted index measuring the performance of the small cap growth segment of the U.S. equity universe including those Russell 2000 Index companies with higher price-to-value ratios and higher forecasted growth values. Index data source: London Stock Exchange Group PLC.