

## Market Commentary

As we closed out the third quarter, September marked the worst month 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<sup>®</sup> 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<sup>®</sup> Value Index fell -3.0% during the quarter compared to the Russell 2000<sup>®</sup> 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 1000<sup>®</sup> Index, the best performing sectors in Q3 were financials (+3.0%), health care (+1.5%) and utilities (+1.3%). The technology and real estate sectors also posted small gains. On the downside, industrials and materials 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 40%-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, consumer staples and materials have lagged the impressive returns of other sectors but are still positive for 2021.

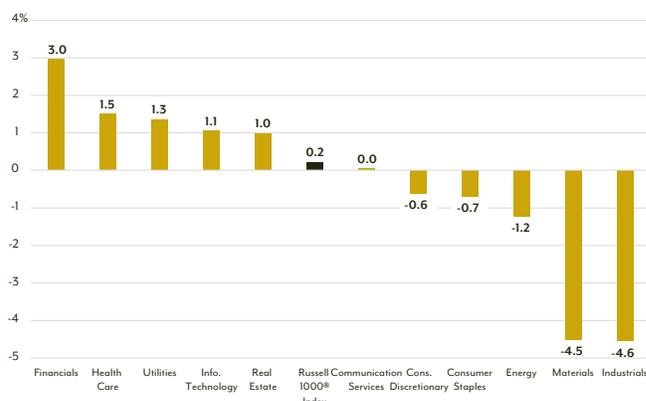
## TEAM

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## RUSSELL 1000<sup>®</sup> INDEX SECTOR RETURNS - 3Q21



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

## Performance Discussion

The portfolio did not keep pace with the Russell 1000<sup>®</sup> Index in Q3 largely due to the underperformance of our holdings in the consumer discretionary and technology sectors. Our outsized exposure to financials as well as the strong performance of our holdings in the sector helped offset some of the relative results, as did our underweight to a weak industrials sector.

Several stocks in the financials sector were among our top contributors this quarter. Property and casualty insurance company American International Group (AIG) continues to advance the turnaround of its property & casualty segment and make 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. Other top contributing financial holdings included Bank of America and new holding Truist Financial Corporation.

Global pharmaceutical company Pfizer and IT services provider Cognizant Technology Solutions were also among our top contributors. Pfizer's stock advanced in Q3 due to positive investor sentiment about the company's COVID vaccine sales. Although we are pleased with the recent stock performance, COVID 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.



The share price of Cognizant Technology Solutions rebounded this quarter after the company reported solid Q2 results despite continued employee attrition challenges. The company has been able to use subcontractors in some instances to manage through elevated employee attrition levels with minimal impact on operating margins. Cognizant also indicated that for full-year 2021 it expects to generate year-over-year revenue growth of 7% to 8% on an organic, constant currency basis, which was modestly better than previous expectations.

Bottom contributors this quarter included apparel and footwear company V.F. Corporation and financial services technology company Fidelity National Financial Services. V.F. Corporation's share price 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.

Fidelity National Information Services (FIS) shares weakened despite relatively solid quarterly results and forward guidance. The market became increasingly worried about competition in merchant acquiring (one third of FIS's total business) and the contrast between new payment technology companies and legacy payment technology companies (like FIS). While the fears of market share dislocation related to new payment technology companies are unlikely to dissipate in the near term, we continue to see FIS as well positioned to grow organically, or via acquisition, over the long term. We expect FIS to maintain attractive levels of profitability and cash flow generation as management deploys excess capital toward debt repayment and opportunistic share repurchases. In our view, the shares are attractively priced relative to the market, and we expect the company to generate mid-teens or higher earnings growth over time.

Other bottom contributors in Q3 included health care insurance provider Humana, auto manufacturer General Motors and copper-focused mining company Freeport-McMoRan. Humana's share price has been clouded by uncertainty around medical utilization and prospective regulatory changes to Medicare Advantage reimbursement rates. General Motors has been impacted by the supply shortage of semiconductors, which has limited automotive production for far longer than initially anticipated. The company has taken steps to mitigate the shortage, but we expect production headwinds will remain into 2022. Freeport-McMoRan's stock, along with other mining companies, reacted to the slight pullback in copper prices this quarter, which reached record levels in the first half of 2021.

## Portfolio Activity

We exited our position in Charles Schwab this quarter as its share price reached our estimate of intrinsic value. We redeployed a portion of that capital into Truist Financial Corporation, as the combination of underlying fundamentals and valuation were attractive. The company continues to experience growth driven by non-interest revenues from insurance brokerage and capital markets activities, while merger cost savings progress—Truist was formed in December 2019 as the result of the merger of BB&T (Branch Banking and Trust Company) and SunTrust Banks—and capital return accelerates due to increased share repurchases.

## 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 to high 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 Large Cap Concentrated Fund Commentary

As of September 30, 2021

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

American International Group, Inc.	8.8%	General Motors Co.	4.6%
Bank of America Corp.	5.1	Humana, Inc.	3.9
Cognizant Technology Solutions Corp. (CI A)	4.1	Pfizer, Inc.	4.2
Fidelity National Information Services, Inc.	3.9	Truist Financial Corp.	4.6
Freeport-McMoRan, Inc.	4.0	V.F. Corp.	3.4

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

	SINCE INCEPTION (2/26/21)	3Q21	EXPENSE RATIO
LARGE CAP CONCENTRATED FUND			
Class I	8.30%	-1.46%	0.67%
BENCHMARKS			
Russell 1000 Index	12.88	0.21	—
Russell 1000 Value Index	10.53	-0.78	—

**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](http://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 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](http://diamond-hill.com/disclosures) for a full copy of the disclaimer.

**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](http://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.