

## 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® 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 margin widest at the small end of the cap spectrum.

In the Russell 2000® Index, the best performing sectors in Q3 were energy (+1.9%) and financials (+1.4%)—the only sectors to post positive returns. The biggest laggard was communication services (-14.3%), weighed down by the underperformance of “meme” stock AMC Entertainment. The health care (-10.4%), consumer discretionary (-6.9%), materials (-5.7%) and consumer staples (-5.3%) sectors all trailed the index's -4.4% return. Year to date, energy stocks remain the clear winners with 70%-plus gains as economic activity resumed. Communication services, consumer discretionary and financials are hanging onto 20%-plus gains year to date. Only utilities and health care are negative for the year, down approximately -8% and -2%.

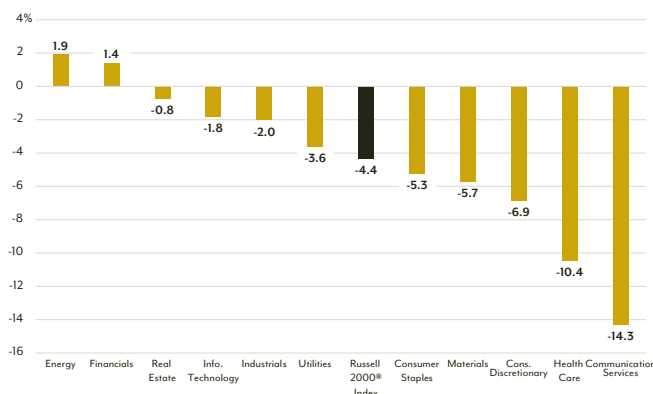
## TEAM

**Aaron Monroe, CFA**  
Portfolio Manager

**Chris Welch, CFA**  
Portfolio Manager

**Kristen Sheffield, CFA, CIPM**  
Portfolio Specialist

## RUSSELL 2000® INDEX SECTOR RETURNS - 3Q21



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

## Performance Discussion

The portfolio outpaced the Russell 2000® Index in the quarter, delivering nearly a 2% positive return against the index's negative return and adding to year-to-date outperformance. Relative performance was aided by our financials exposure, particularly banks, which is focused on companies that have a specialized niche and/or strong geographic footprint and have demonstrated their ability to compound returns and grow intrinsic value. Strength among our consumer discretionary holdings was a tailwind. Our health care holdings were negative in aggregate, but outpaced index peers, which boosted relative performance along with our below-benchmark positioning. Weakness among our utilities holdings hampered relative performance, as did our below-benchmark exposure to technology, though our technology holdings still outpaced index peers.

On an individual holdings' basis, top contributors to return included Red Rock Resorts, SPX Flow and Triumph Bancorp. Red Rock, also a top contributor year to date, 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.



SPX Flow, a manufacturer of industrial flow control systems such as pumps, valves and mixers, benefited from news it had been approached by Ingersoll Rand about a possible acquisition. SPX rejected the proposal but is reviewing its strategic options, including interest from two other potential buyers. To us, this is a sign the market still undervalues this quality business but other strategic buyers see the value we do. We are confident management will either hold out for a price reflective of long-term intrinsic value or continue to execute as a standalone company, growing intrinsic value at an attractive rate for years to come.

Triumph Bancorp fits the description of a bank that has carved out a specialized niche with a strong geographic footprint. This Dallas-based bank has a unique focus on the transportation industry. It is building out a payments platform, TriumphPay, which could become the primary network for brokered freight payments—a space with little-to-no competition.

Other top contributors included WESCO International, a leading distributor of electrical, industrial and communications materials, and Mr. Cooper Group, a mortgage servicing company.

Bottom contributors in Q3 included Kirby Corporation, PROG Holdings and Green Brick Partners. 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.

Rental and leasing services company PROG holdings is the largest virtual lease-to-own provider in the U.S., with a diverse mix of both bricks-and-mortar and e-commerce retail partners. PROG was pressured in the quarter by investor worries over rising competition from new point-of-sale offerings relative to legacy lease-to-own offerings where PROG is a market leader. We believe PROG's core lease-to-own offering remains a unique market niche, and it continues making progress with large retail partnerships, notably Best Buy and Lowes, that are still in the early innings of growth.

Homebuilder Green Brick Partners has benefited from strong housing demand leading to higher prices. However, rising interest rates, as we saw in Q3, tend to be an industry-wide headwind, just as supply chain challenges delayed home closings, pushing back revenue to later quarters. Longer term, our thesis on Green Brick remains unchanged. We believe it is one of the best positioned small-cap housing companies, with attractive real estate, a strong balance sheet and a strong, shareholder-aligned management team that has been a wise allocator of capital.

Other bottom contributors in Q3 included specialty food manufacturer Lancaster Colony Corp and natural gas utility South Jersey Industries.

## Portfolio Activity

We added just one new holding to the portfolio in Q3, Taseko Mines. Taseko is a small copper miner based in Canada and the U.S. Copper is a key industrial input, particularly for green technologies. As demand for electrification and construction globally increases, the supply of new copper-producing projects has lagged. This supply/demand dynamic has created an attractive opportunity to invest in a strong business oriented toward strengthening end markets.

Our position in specialty chemicals and materials company W. R. Grace & Co., was closed as the all-cash acquisition by Standard Industries Holdings, a privately held building materials company, was completed on September 22. We exited global medical technology company LivaNova as shares approached our estimate of intrinsic value.

## 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, though 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 Small Cap Fund Commentary

As of September 30, 2021

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

Green Brick Partners, Inc.	1.7%	SPX Flow, Inc.	2.0%
Kirby Corp.	1.3	South Jersey Industries, Inc.	1.2
Lancaster Colony Corp.	0.2	Taseko Mines Ltd.	0.7
Mr. Cooper Group, Inc.	2.4	Triumph Bancorp	0.9
PROG Holdings	1.4	WESCO International, Inc.	3.1
Red Rock Resorts, Inc. (CIA)	6.2		

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

	SINCE INCEPTION (12/29/00)	20-YR	15-YR	10-YR	5-YR	3-YR	1-YR	YTD	3Q21	EXPENSE RATIO
SMALL CAP FUND										
Class I	10.22%	10.67%	7.63%	11.09%	8.80%	7.55%	56.08%	23.21%	1.94%	0.97%
BENCHMARKS										
Russell 2000 Index	9.02	10.29	9.16	14.63	13.45	10.54	47.68	12.41	-4.36	—
Russell 2000 Value Index	9.30	9.79	7.50	13.22	11.03	8.58	63.92	22.92	-2.98	—

**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 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. 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](http://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](mailto: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](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 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. 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.