

Concentration by Design

A look at the Diamond Hill Large Cap Concentrated Active ETF (DHLX)

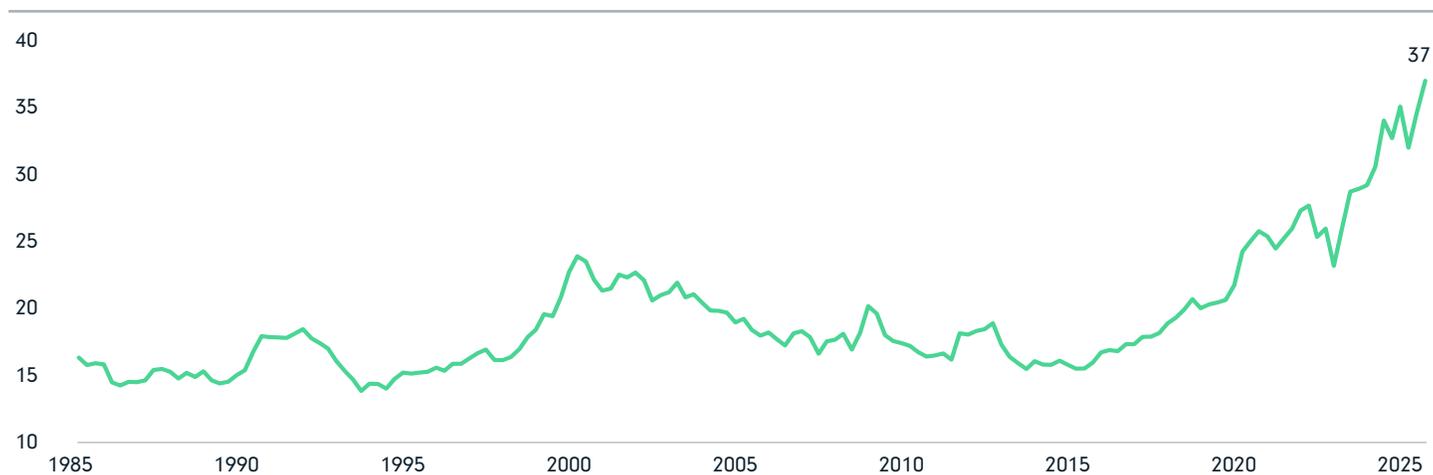
DIAMOND HILL

INVESTED IN THE LONG RUN

A concentrated market... by default

The cost of gaining broad exposure to the stock market, or “beta,” has continued to decline over the past several decades with the growth of passive strategies. This has made these strategies an increasingly attractive option for many investors. However, the extreme success of a small number of very large companies, combined with the fact that the most popular indices are constructed on a market cap-weighted basis, has resulted in a highly concentrated US equity market. The top 10 companies in the Russell 1000 Index currently represent 37% of the market – a level much higher than we’ve seen over the past four decades.

Exhibit 1 – Concentration of Top 10 Companies in the Russell 1000 Index (%)



Source: FactSet, as of 30 September 2025.

With broad market exposure, many investors are concentrated by default, but they don’t control which stocks they are concentrated in. And with market cap-weighted indices, as valuations expand, investors end up with a larger allocation to those stocks. The Diamond Hill Large Cap Concentrated Active ETF (DHLX) offers concentration by design: a valuation-sensitive, research-led portfolio that can complement broad market exposure by focusing capital in our highest-conviction ideas.

The discipline of focus

Our portfolio is built on a simple principle: own fewer businesses but know them better. By limiting the portfolio to around 20 holdings, we ensure that capital is committed only to companies where our conviction is highest – those with durable competitive advantages, prudent balance sheets and attractive valuations.

This disciplined approach results in a portfolio that looks meaningfully different from the benchmark, and one where every holding must earn its place. Focus is a key differentiator, and our deep understanding of each business serves as a critical form of risk mitigation.

Why concentration works

1. Alignment with active management’s true purpose

Active management was never meant to resemble the index, yet many actively managed strategies don’t look much different than their benchmark. Concentrated portfolios embody the purpose of active management by being conviction-driven and benchmark-agnostic.

2. Amplifying research edge

Depth matters more than breadth. With fewer holdings, our team can develop deeper familiarity with each business, enabling more informed decisions with a long time horizon.

3. Potential for higher returns

Research suggests¹ that investment managers concentrating in their highest conviction ideas can lead to better performance. The ability for strong stock pickers to concentrate allows for their best ideas to really move the needle.

4. Behavioral advantage

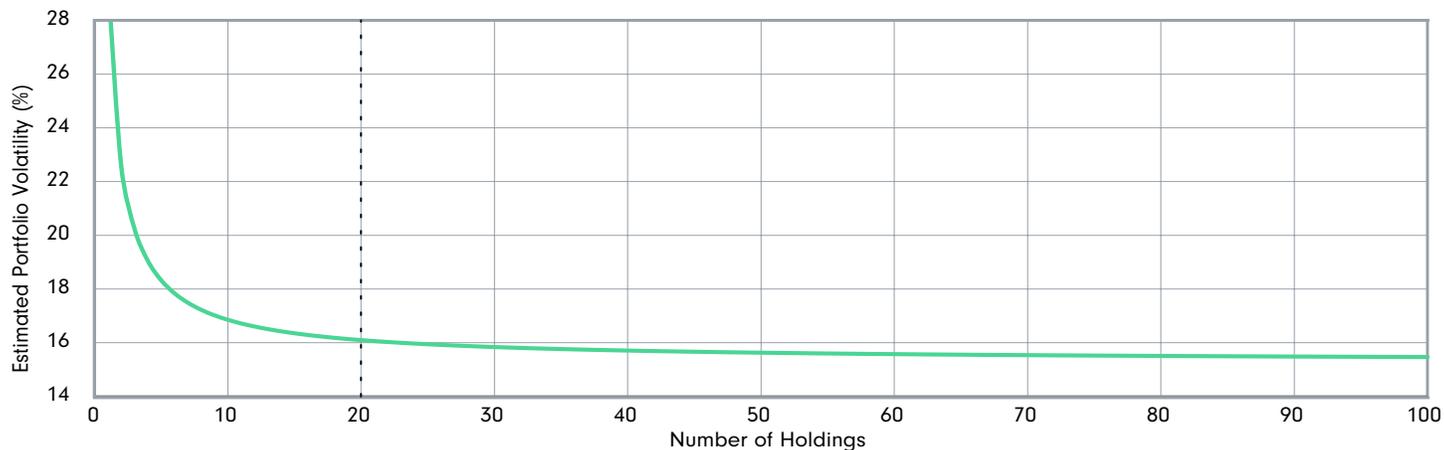
Concentration isn’t only about what you hold, but about how you behave. Fewer positions reduce the temptation to chase trends or fill portfolios with “just in case” ideas. This discipline allows us to stay patient, resist market noise and focus on the most attractive opportunities.

Isn’t concentration risky?

It has been shown that most of the benefits of diversification are achieved with around 20 stocks. However, a concentrated strategy will inevitably produce returns that diverge meaningfully from the index – both positively and negatively. This is an unavoidable price to pay to generate long-term excess returns and is something investors must be comfortable with.

Risk isn’t performing differently than the index – it’s the permanent impairment of capital. Managing that risk requires a deep understanding of each individual business.

Exhibit 2 – Diversification Benefits Taper After ~20–30 Holdings



Source: Diamond Hill. This chart is for illustrative purposes only, does not reflect actual performance, and is based on academic research examining the relationship between the number of holdings in a portfolio and estimated volatility (Evans & Archer 1968, Elton & Gruber 1977, Statman 1987). These studies analyzed random portfolios of US equities and found that most of the reduction in portfolio-specific risk occurs within the first several dozen securities, after which additional holdings provide diminishing diversification benefits. The assumptions and results in these studies may differ from actual market conditions and should not be interpreted as a guarantee of future results.

¹Miguel Antón, Randolph B. Cohen and Christopher Polk, *Best Ideas* (Harvard Business School Working Paper 21-004, 2020), [PDF](#)

The Diamond Hill difference

At Diamond Hill, we treat every stock as an ownership interest in a business. The Large Cap Concentrated Active ETF (DHLX) is the purest expression of that philosophy: a portfolio distilled to our strongest convictions, constructed to compound value over time.

In an investing world where “concentration” is increasingly unavoidable, we believe a key distinction is whether it happens by default or by design. This strategy is a deliberate, conviction-driven alternative that now offers the tax efficiency, transparency and liquidity benefits of the ETF vehicle.

Diamond Hill Large Cap Concentrated ETF (DHLX)

Ticker: DHLX

Benchmark: Russell 1000 Value Index

Number of Holdings: 20-30

Expense ratio: 0.55%

Active Share (vs Russell 1000 Value)²: 89.9%

Maximum Individual Position Size: 10%

Maximum Industry Exposure: 25%

Maximum Sector Exposure: 35%

Minimum Market Cap: \$15 billion

Top 10 Holdings are typically greater than 50% of net assets

²As of 30 September 2025.

Risk Disclosure: Because the portfolio holds a limited number of securities, a decline in the value of these investments may affect overall performance to a greater degree than a less concentrated portfolio.

Russell 1000 Index measures the performance of roughly 1,000 US large-cap companies. The index is unmanaged, market capitalization weighted, includes net reinvested dividends, does not reflect fees or expenses (which would lower the return) and is 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.

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Carefully consider the Fund's investment objectives, risks and expenses. This and other important information are contained in the Fund's prospectus and summary prospectus, which are available at diamond-hill.com or calling 888.226.5595. Read carefully before investing. The Diamond Hill Funds are distributed by Foreside Financial Services, LLC (Member FINRA).