Concentrating on Success

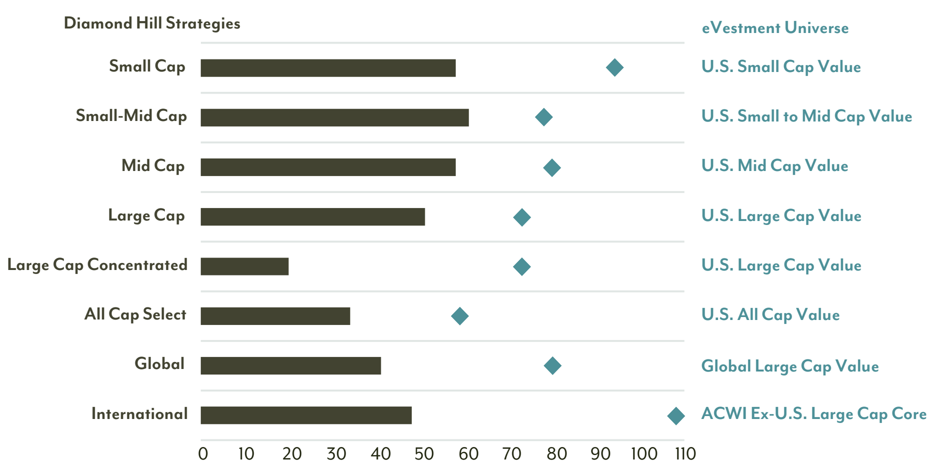
May 5, 2021

As active managers, our investment process has always led us to building high conviction, differentiated portfolios, which we believe is the best way to deliver great outcomes for clients over the long-term.

Our **active** approach gives us conviction to stand apart from the crowd. Our **ownership** mentality leads us to be selective with capital. Being **long-term oriented** means we are comfortable with the differentiated risk profile that comes with a concentrated approach. Our **valuation discipline** helps us focus on those companies that exhibit the characteristics we look for. And our **capacity discipline** means we won't dilute the impact of our stock selection on returns by increasing the number of positions we own simply to add more assets.

Taken together, our investment principles naturally guide our portfolio selection to result in fewer holdings. Companies in which we have the most conviction are typically assigned the largest weights in our equity portfolios. And within our diversification constraints, we are willing to take outsized positions (relative to the index) in those highest conviction ideas. Conversely, we will sometimes have zero exposure to sectors or industries that don't exhibit quality, long-term cash generation potential and/or attractive valuations. Over time, we have found that our strategies typically have fewer holdings than their peers (Exhibit 1).

EXHIBIT 1: NUMBER OF HOLDINGS VS. PEER AVERAGE



Source: Diamond Hill data as of 12/31/2020. eVestment universes and data as of 12/31/2020.

DIAMOND HILL INVESTMENT PRINCIPLES

At Diamond Hill, we share investment principles that guide our approach across asset classes.

Active, Fundamental Approach — We believe we can add the most value with an active, fundamentally driven process.

Ownership Mindset — Our investment professionals approach each investment as long-term owners, and they invest heavily alongside our clients. With every employee an owner of company shares their first day, we promote an ownership mentality throughout the firm.

Long Term — We are long-term oriented in both our investment analysis and the management of our business.

Valuation Discipline — We invest with a valuation discipline. We believe in taking an ownership stake in an investment at a discount to what we believe it is worth and waiting patiently for value to be realized.

Capacity Discipline — We are committed to capacity discipline. We believe prudent capacity management puts our clients' interests first.

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As active managers, building differentiated portfolios is critical to adding value for our clients. To paraphrase a common saying: Outperforming the market, requires looking *different* than the market. Our investment principles and selective approach to portfolio construction result in portfolios that are materially different from common client benchmarks. One way to measure our differentiation relative to the benchmark is active share—a measure of the percentage of stock holdings in a manager's portfolio that differs from the benchmark index. Given our strategies' modest number of holdings and our active, bottom-up approach, all of our strategies typically exhibit high active share (Exhibit 2).

EXHIBIT 2: DIAMOND HILL EQUITY STRATEGIES ACTIVE SHARE

DIAMOND HILL STRATEGY	ACTIVE SHARE
Small Cap	98%
Small-Mid Cap	96%
Mid Cap	95%
All Cap Select	95%
Large Cap Concentrated	92%
International	92%
Global	90%
Large Cap	83%

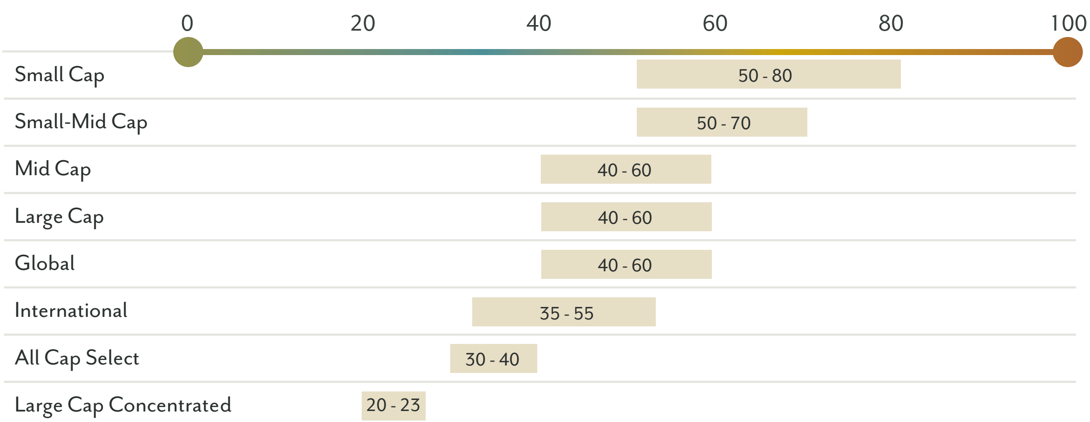
As of 12/31/2020.

We also know that, theoretically, a more concentrated portfolio should have a risk/return profile that further differentiates it from benchmark indices and peers. And a concentrated portfolio based on a disciplined process and conviction in underlying securities should yield better results over long time periods. For investors who choose a passive allocation, complementing it with a more concentrated portfolio can help diversify the portfolio's risk profile while adding to alpha potential.

Diamond Hill Strategies

At Diamond Hill, our equity strategies range from concentrated to highly concentrated. Below we highlight two of our highly concentrated strategies: Large Cap Concentrated and All Cap Select.

HOLDINGS RANGE



Large Cap Concentrated

One area that investors might favor a more highly concentrated approach is in large cap equities. For the past two decades, investors have flooded the ETF market with capital, seeking low-cost options to capture market returns. While investing in ETFs that mimic large cap indices, such as the Russell 1000® Index, might deliver market-like returns, they can also end up overexposed to industries based solely on momentum (and a large runup in ETF assets) rather than an active decision to

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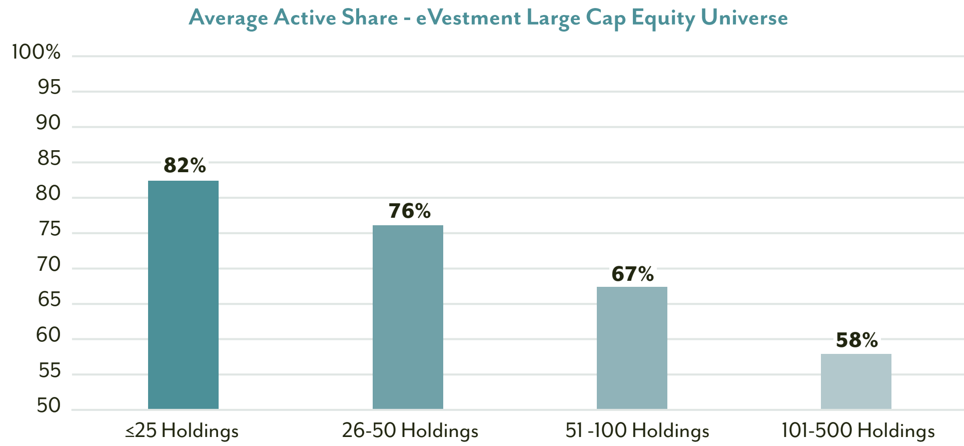
diversify assets. Further, ETF providers are not performing due diligence on management teams, assessing balance sheet quality, or estimating the long-term cash generation capabilities of index constituents.

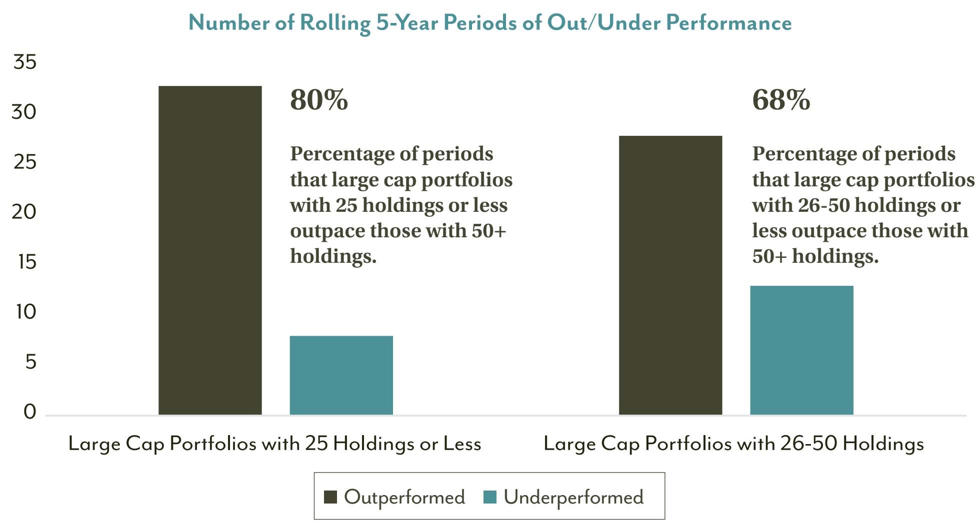
Actively managed portfolios can provide a welcome complement to passive products in the large-cap asset class, especially if those portfolios are differentiated from the passive benchmark (high active share). On average, more concentrated portfolios tend to exhibit higher active share (Exhibit 3). Even among active managers, concentration has the potential to provide some unique exposure or diversification. Additionally, more concentrated large-cap equity portfolios have tended to deliver better results over time, as shown in Exhibit 4.

EXHIBIT 3: ACTIVE SHARE FOR LARGE CAP EQUITY



Source: eVestment. As of 12/31/2020.

EXHIBIT 4: CONCENTRATED LARGE CAP BESTS THOSE WITH HIGHER HOLDINGS COUNTS



Source: eVestment. As of 12/31/2020. Rolling 5-year annualized returns for portfolios with 25 or less, 26-50, and 50+ holdings in the eVestment U.S. Large Cap Equity universe.

The Diamond Hill Large Cap Concentrated Strategy focuses its assets in approximately 20 businesses that are higher quality, have the potential to grow their intrinsic value, and trade at an attractive valuation. Our bottom-up, benchmark agnostic approach to stock selection leads to differentiated sector and industry exposure driven by conviction, not market momentum. And it provides the higher-alpha potential that comes with a more concentrated portfolio.

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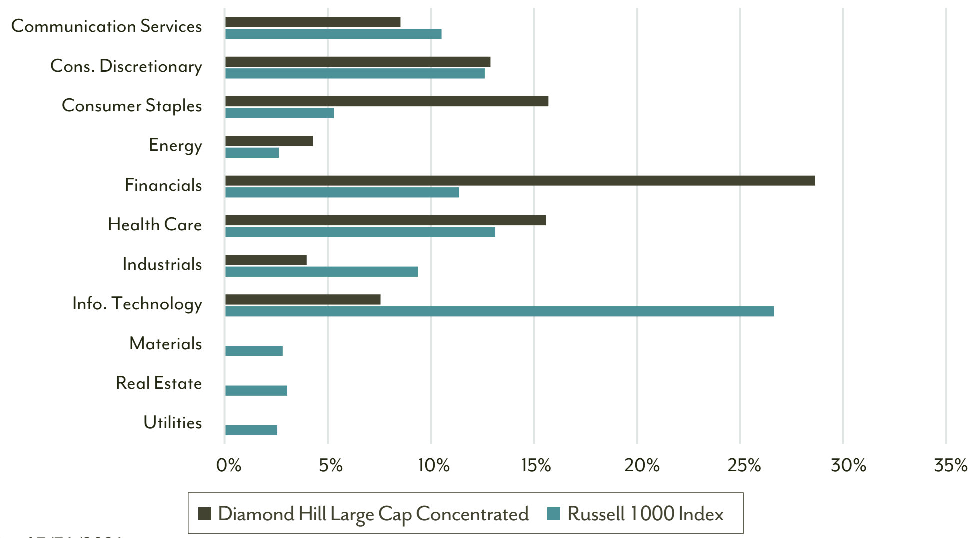
EXHIBIT 5: SECTOR WEIGHTS — DIAMOND HILL LARGE CAP CONCENTRATED VS. RUSSELL 1000® INDEX



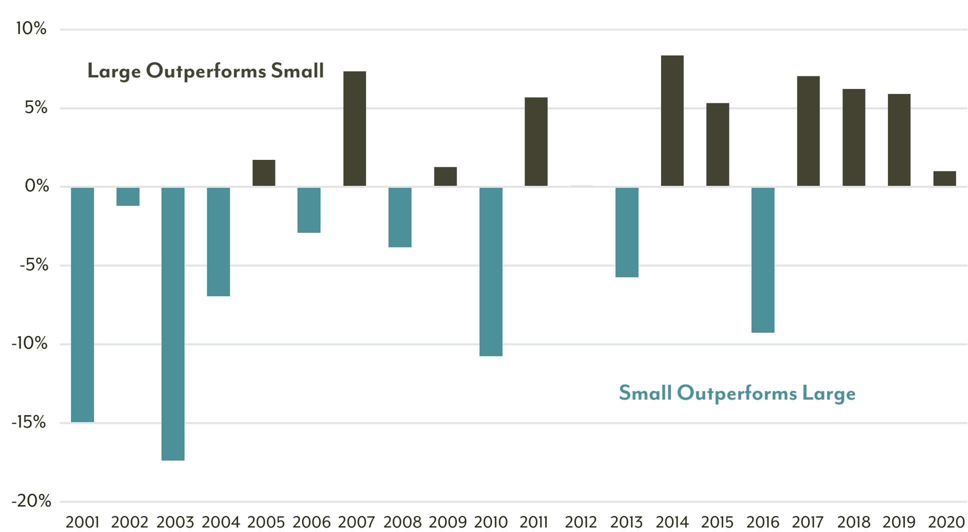
Source: FactSet. As of 3/31/2021.

All Cap Select

All capitalization portfolios can provide a solution for investors interested in investing in the most attractive market opportunities without the constraint of adhering to a size range.

Investors can benefit from active all cap strategies because managers can be nimble and move where the opportunities are. Over time, the performance of large cap stocks relative to small caps can ebb and flow, creating investment opportunities along the way. In fact, large and small have traded leadership over the past 20 years resulting in roughly the same number of outperforming periods (Exhibit 6). While size leadership can go on multi-year runs, e.g., small from 2001-2004 and large from 2017-2020, investors tend to see a reversion to the mean over the long term. The ability to capitalize on opportunities across the size spectrum is one of the attractive attributes of actively managed all cap portfolios.

EXHIBIT 6: CALENDAR YEAR RETURNS OF THE RUSSELL 1000® VS. RUSSELL 2000® INDICES



Source: Russell.

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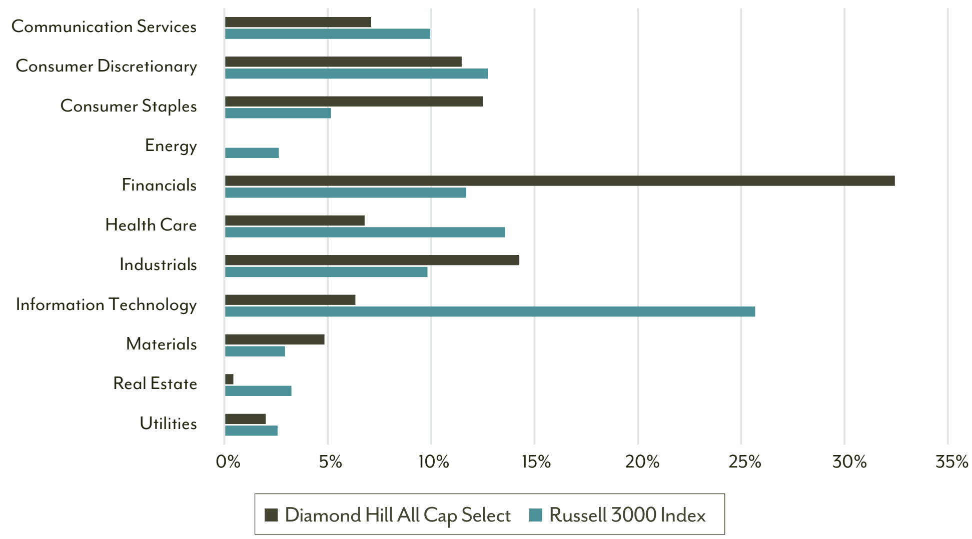
All cap strategies also offer a certain level of efficiency for various investor types. For investors who do not want to invest using a complex asset allocation strategy—worrying about style boxes and overlap between managers—all cap strategies can streamline the investment process and decision making. An all cap approach can also make sense for investors who do not have enough assets (or investment acumen) to properly design their own asset allocation (i.e., retirement plan participants)—providing a more simplified approach.

In conversations with clients throughout the years, we have found that some investors implement completely passive approaches in U.S. equities. This provides a good example of when an actively managed all cap portfolio can complement the passive approach—providing a differentiated risk/return profile with the potential to add value beyond benchmark-like returns.

The Diamond Hill All Cap Select Strategy focuses its assets in 30-40 holdings that are higher quality, have the potential to grow their intrinsic value, and trade at an attractive valuation. Our bottom-up, benchmark agnostic approach to stock selection leads to a diversified all cap portfolio with unique market exposures driven by conviction. It also provides the higher-alpha potential that comes with a more concentrated portfolio.

EXHIBIT 7: SECTOR WEIGHTS — DIAMOND HILL ALL CAP SELECT VS. RUSSELL 3000® INDEX



Source: FactSet. As of 3/31/2021.

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. These indices do not incur fees and expenses (which would lower the return) and are not available for direct investment.

Key Definitions: Active Share measures the difference between portfolio holdings and the benchmark. The higher the active share, the greater the difference. **Alpha** measures excess return relative to the market that is attributable to active portfolio management.

The views expressed are those of Diamond Hill as of May 2021 and are subject to change. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice.