

(closed to new investors)

Market Commentary

After one of history’s sharpest and quickest market declines in Q1, an unprecedented amount of government stimulus and the beginnings of an economic rebound as the world began reopening drove one of the sharpest equity market rebounds ever seen. The Russell 3000 Index returned 22.0% in Q2—its best quarter in history. As of June 30, the index was down just 3.5% for the year.

Technology-related stocks were again the most notable contributors to market returns in Q2. Many of these businesses will likely see minimal long-term impact from COVID-19, with some potentially coming out of it in a better competitive position. Combined with generally strong balance sheets and attractive growth rates, these businesses seem to have safe-haven status in the minds of many investors. Five of these stocks—Apple, Microsoft, Amazon, Facebook and Alphabet—contributed one-quarter of the broader market’s Q2 return. The consumer discretionary sector performed best, driven by Amazon’s 41.5% increase, while 43.8% and 29.4% returns for Apple and Microsoft, respectively, were responsible for a large portion of the information technology sector’s continued outperformance.

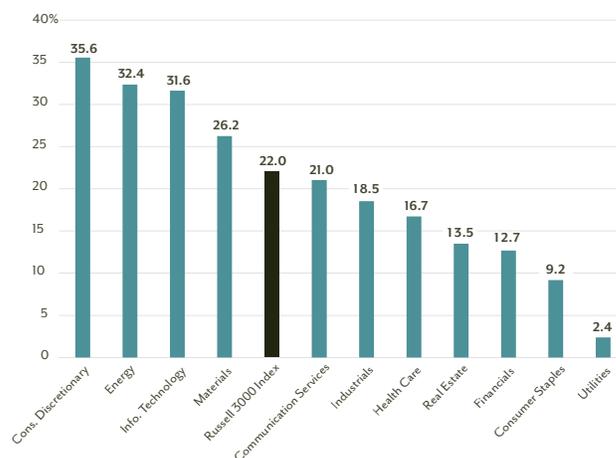
After a significant Q1 decline, the energy sector bounced back significantly in Q2. Oil prices plummeted earlier this year as demand cratered, causing producers to take supply offline. As economies started reopening in Q2 and demand slowly began returning, oil prices rebounded 92%—driving the sector 32.4% higher. Still, the sector is by far the worst performing year-to-date, down more than 36%.

Defensive sectors lagged in Q2, with consumer staples and real estate increasing 9.2% and 13.5%, respectively, and utilities eking out a 2.4% return.

TEAM

Chris Welch, CFA
Portfolio Manager

RUSSELL 3000 INDEX SECTOR RETURNS - 2Q20



Source: FactSet.

Market Outlook

Related to the strong performance of technology companies, growth stocks more broadly continued to dominate value stocks, with the Russell 3000 Growth Index’s 28.0% return nearly doubling the value index. Value did have a three-week stretch of outperformance starting May 15, but it didn’t last. Value gave back that outperformance and then some starting in mid-June as COVID-19 cases began to accelerate in many parts of the country. As concerns of a second wave grew, investors reverted back to the perceived safety of large-cap growth stocks.

Small cap stocks, however, reversed their recent trend of underperformance, with the Russell 2000 Index’s 25.4% return beating the Russell 1000 Index return by 360 basis points. This is the largest magnitude by which small caps have outperformed large caps since Q2 2018—though it’s only a small dent in large cap stocks’ multi-year outperformance.

The strength of the market rally has surprised us, since the economic and earnings outlook is still highly uncertain. Stock prices are not far from the levels seen at the beginning of the year, particularly for large caps, and valuations do not appear to discount a meaningful probability of an economic setback from a second wave of COVID-19. That said, the unprecedented amount of government stimulus—and a willingness to do more if necessary—continues to be supportive of markets.



(closed to new investors)

Looking ahead, we anticipate most businesses will report declines in sales and earnings; however, those with a more variable cost structure should be able to protect margins and earnings better than those with greater fixed costs. We have been focused on assessing businesses' cost structures and how the associated operating leverage may impact near-term cash flows. In addition, we have been closely examining companies' balance sheets and liquidity situations to assess their ability to weather the downturn.

We remain focused on individual business analysis, comparing price and value, and prudently using volatility to take advantage of opportunities the market presents, all while attempting to minimize the potential for permanent impairments of client capital.

Small-Mid Cap Fund Review

The Fund increased 20.51% (Class I) during the quarter, compared to a 26.56% increase in the Russell 2500 Index.

On an absolute basis, all sectors contributed to return, led by the consumer discretionary, industrials and financials sectors.

The Fund's underperformance relative to the Index was primarily driven by security selection in the health care and information technology sectors. Underweight positions in those sectors also detracted from relative return. Security selection in the financials, industrials, utilities and materials sectors, along with an overweight position in the consumer discretionary sector contributed to relative return.

Best Performers

- Global automotive supplier **BorgWarner, Inc.**
- Diversified technology company **Colfax Corp.**
- Specialty chemicals manufacturer **Ashland Global Holdings, Inc.**
- Industrial distributor **WESCO International, Inc.**
- Specialty chemicals manufacturer **W. R. Grace & Co.**

Worst Performers

- Property and casualty insurance company **ProAssurance Corp.**
- Electronic components manufacturer **Sanmina-SCI Corp.**
- Alcoholic beverage manufacturer **Molson Coors Beverage Co. (CI B)**
- Property and casualty insurance company **Enstar Group Ltd.**
- Real estate investment trust **iStar, Inc.**

New Positions

- Property and casualty insurance company **Loews Corp.**
- Medical device manufacturer **LivaNova PLC**

Eliminated Positions

- Banking and financial services company **Popular, Inc.**
- Oil and gas exploration and production company **WPX Energy, Inc.**

(closed to new investors)

MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF JUNE 30, 2020

Ashland Global Holdings, Inc.	2.3%	Molson Coors Beverage Co. (CI B)	0.7%
BorgWarner, Inc.	2.9	Popular, Inc.	0.0
Colfax Corp.	2.5	ProAssurance Corp.	1.1
Enstar Group Ltd.	0.9	Sanmina-SCI Corp.	1.3
iStar, Inc.	0.6	W. R. Grace & Co.	1.5
LivaNova PLC	0.4	WESCO International, Inc.	1.8
Loews Corp.	1.3	WPX Energy, Inc.	0.0

PERIOD AND ANNUALIZED TOTAL RETURNS AS OF JUNE 30, 2020

	SINCE INCEPTION (12/30/05)	10-YR	5-YR	3-YR	1-YR	YTD	2Q20	EXPENSE RATIO	
								GROSS	NET ¹
RETURNS AT NAV (WITHOUT SALES CHARGE)									
Class I	6.69%	8.96%	1.30%	-3.24%	-16.19%	-22.68%	20.51%	0.93%	0.92%
BENCHMARK									
Russell 2500 Index	7.65	11.46	5.41	4.08	-4.70	-11.05	26.56	—	—
Russell 2500 Value Index	5.64	8.81	1.85	-2.60	-15.50	-21.18	20.60	—	—

¹ The Fund may invest in another Diamond Hill Fund. Diamond Hill Capital Management, Inc. is required to permanently waive a portion of its management fee in the pro-rata amount of the management fee charged by the underlying Diamond Hill Fund.

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 June 30, 2020, 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. As of June 30, 2020 Diamond Hill owned Microsoft Corp. (equity), Alphabet, Inc. (equity) and Facebook, Inc. (equity).

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 have no sales charge.

Fund holdings subject to change without notice.

The Russell 2500 Index is an unmanaged market capitalization-weighted index comprised of the smallest 2,500 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 2500 Value Index is an unmanaged market capitalization-weighted index measuring the performance of the small and midcap value segment of the U.S. equity universe including those Russell 2500 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.