DIAMOND HILL

INVESTED IN THE LONG RUN

# Small Cap Fund

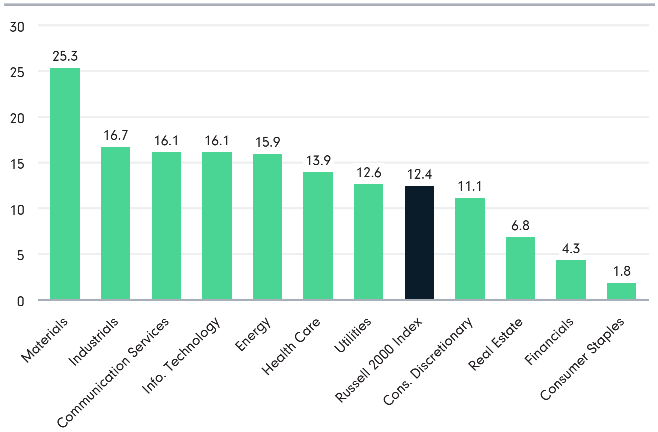
As of 30 Sep 2025

## Market Commentary

Markets continued their year-to-date rise in Q3, with US small-cap stocks gaining over 12% (as measured by the Russell 2000 Index) and taking year-to-date gains to just over 10%. The small-cap index had the best quarter by a meaningful margin, up over 12%, while the Russell 1000 Index gained roughly 8% and the Russell Mid Cap Index was up just over 5%.

From a sector perspective, the artificial intelligence (AI)-fueled boom had widespread effects. Materials had the best quarter, up 25%, while industrials were up nearly 17%; technology and communication services were each up over 16%. No sectors were in the red in Q3, though consumer staples delivered the most modest return, up shy of 2%.

**3Q25 Russell 2000 Index Sector Returns (%)**




Source: FactSet, as of 30 Sep 2025.

## Team

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Portfolio Specialist

Trade, monetary policy and geopolitics remained the top headlines in Q3, even as markets seemed to shrug off any ongoing concerns and continue their rise (and rebound from late Q1's and early Q2's sharp downturn in the wake of President Trump's initial tariff announcements). Despite the uncertainty stemming from these and other areas, markets plodded along in Q3, with several indices notching new all-time highs. Technology companies have continued their torrid run as sentiment around the potential for AI to radically change life as we know it remains high.

Against such a backdrop, it can be challenging to fight the urge to float with the current — but we believe investors who do the hard work of researching and identifying resilient companies that markets may be entirely overlooking can ultimately generate attractive long-term returns. As such, we will continue focusing on areas where we believe valuations are disconnected from underlying fundamentals and long-term business prospects — an approach we believe will benefit investors regardless of how events continue unfolding in the quarters and years ahead.

## Performance Discussion

Our portfolio trailed the Russell 2000 Index in Q3. While we were pleased with the absolute return of the portfolio, we trailed significantly during the strong rally that started in early August. The primary driver of our relative underperformance had to do with the nature of the rally and performance coming from areas of the market we tend not to own. The strong performance of the index appeared to be spurred by investor sentiment around the prospect of lower interest rates, which tends to drive outsized performance in lower quality, distressed businesses that may get reprieve from lower rates as well as non-profitable (often highly innovative businesses) or "non-earners" that are longer duration in nature as potential growth tends to be far out into the future. This is a type of short-term market move where we are comfortable trailing, as these are two areas of the market we tend to avoid given that these businesses often do not meet our qualitative standards for businesses we would like to own.

Outside of the areas we didn't own, there were several puts and takes within the portfolio during the quarter. We saw strong contribution from several large holdings delivering from a fundamental perspective as well as a couple of individual detractors that were under pressure.

Our top individual contributors in Q3 were Mr. Cooper Group and Centrus Energy. Shares of mortgage servicing company Mr. Cooper Group rose as its acquisition by Rocket Companies closed as the quarter concluded. Investor sentiment has also been buoyed by the Fed's recent rate cut, which should give a boost to housing and refinancing demand in the period ahead.

Nuclear fuel and services provider Centrus Energy is benefiting from renewed interest in nuclear power in the US to support growing power demand tied to the AI boom. Centrus is a nuclear fuel broker with burgeoning enrichment capabilities, positioning it well as the US seeks to maintain domestic energy independence.

Other top contributors in Q3 included Red Rock Resorts, US Lime & Minerals and Ducommun. Red Rock Resorts, a casino operator controlling over half the Las Vegas locals' market, continues to benefit from broad fundamental strength, which is underpinning steady and stable growth. US Lime and Mineral, which manufactures and supplies lime and limestone products, benefited from growing demand from construction, environmental and steel customers, which in turn drove sales growth. The company's key markets in Louisiana and Texas are experiencing more stabilization work than other regions, with strong bidding activity indicating robust underlying demand. US Lime and Mineral is also benefiting from infrastructure projects in the region which should contribute to above-average construction activity.

Ducommun is a critical Tier 1 and Tier 2 supplier of advanced material aerostructures and electrical components to the defense and commercial markets. Boeing is consistently producing its 737 Max airplane at a rate of 38 per month, which could increase to 42 per month by the end of 2025 — and Ducommun expects it will be able to supply Boeing at a rate roughly equal to its production rate by the middle of 2026. Ducommun is also benefiting from strong demand in its missile programs amid heightened geopolitical tensions globally.

Bottom contributors in Q3 included FTAI Infrastructure and Mesa Laboratories. FTAI Infrastructure, which operates infrastructure assets for transportation, energy and industrial products customers, saw volumes at its Jefferson terminal increase slower than expected in the quarter and performed planned maintenance at its Long Ridge facility — factors which impacted revenues and weighed on the share price. However, during the quarter, FTAI Infrastructure also announced it will acquire The Wheeling Corporation, which owns the Wheeling & Lake Erie Railway Company, a Class II regional freight railroad serving customers in Ohio, Pennsylvania, West Virginia and Maryland. We believe this acquisition is strategically significant and could represent a pivotal moment in the company's evolution toward becoming primarily a freight rail business, while also working to monetize its other assets.

Mesa Laboratories provides life sciences tools and quality control products and services. The company navigated a challenging macroeconomic environment with modest growth — though profitability was pressured by currency impacts, tariffs and timing delays. These order timing issues also weighed on organic growth, as did China-related headwinds. However, positively, Mesa's largest segment, sterilization and disinfection control, delivered solid core growth, speaking to the resilience of the company's diversified portfolio.

Other bottom contributors in Q3 included Triumph Financial, Orion and Ryman Hospitality Properties. Regional bank Triumph Financial focuses on the transportation industry. Shares were pressured during the quarter amid the ongoing freight recession and a high-profile bankruptcy to which Triumph had modest exposure, leading to heightened concerns about credit. Carbon black manufacturer Orion likewise faces pressures related to the ongoing freight recession and a market in which strained consumers are choosing cheaper imported tires.

Ryman Hospitality Partners is a leading lodging and hospitality real estate investment trust (REIT) specializing in upscale convention center resorts and entertainment experiences. Shares were pressured in the quarter as fundamentals were a bit mixed, and investors weighed some concerns around the company's transient business. However, we maintain our conviction in the long-term outlook for the business.

## Portfolio Activity

After adding quite a few new businesses to the portfolio in Q2 around the April sell-off, we found it more challenging to find immediately actionable new ideas this quarter with valuations increasing. However, we did initiate one new position in Q3: Hurco Companies.

Hurco Companies is a global industrial technology company specializing in computer numerical control (CNC) machine tools and interactive controls for the metal-cutting industry. The company serves job shops and manufacturers across the aerospace, defense, medical, energy and transportation sectors through three distinct brands: Hurco (premium brand), Milltronics (value brand) and Takumi (precision brand). Hurco's strategic positioning creates a compelling investment opportunity given it has over 50% revenue exposure to Europe, which positions the company well to benefit from European defense and industrial investment.

We didn't exit any positions in the quarter.

## Market Outlook

Equity markets have demonstrated remarkable resilience in 2025, navigating a complex environment shaped by shifting policies, economic uncertainty and evolving investor sentiment. As we look ahead, the interplay between these factors will likely continue to influence market dynamics, presenting both challenges and opportunities for investors.

While near-term economic growth projections remain healthy, signs of a weakening consumer have emerged across various sectors. Given the consumer's critical role in driving the economy, further softening could pose risks to the high-single-digit corporate earnings growth currently anticipated for the year. Monitoring these trends will be essential as we assess the sustainability of current market expectations. It will also be critical for us to monitor where the tariff discussions settle and how countries react to these discussions with potential corresponding capital flows. The movement of capital is critical for small businesses supporting supply chains and infrastructure development.

While the macro environment has taken investors on quite a wild ride thus far in 2025, we remain focused on what we can control, which is the identification of small companies that we believe possess resiliency, strong fundamentals and long-term growth potential.

Looking forward, the path ahead will likely be shaped by a combination of economic resilience, policy developments and shifts in market dynamics. By staying focused on our disciplined investment process, we aim to navigate these complexities and position our portfolio for long-term success.

## Period and Annualized Total Returns (%)

| | Since Inception (29 Dec 2000) | 20Y | 15Y | 10Y | 5Y | 3Y | 1Y | YTD | 3Q25 | Expense Ratio (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| Class I (DHSIX) | 9.88 | 7.39 | 9.09 | 8.17 | 16.37 | 16.75 | 7.65 | 6.66 | 7.93 | 0.97 |
| Russell 2000 Index | 8.20 | 8.14 | 10.42 | 9.77 | 11.56 | 15.21 | 10.76 | 10.39 | 12.39 | — |
| Russell 2000 Value Index | 8.56 | 7.27 | 9.54 | 9.23 | 14.59 | 13.56 | 7.88 | 9.04 | 12.60 | — |

Click here for holdings as of 30 September 2025.

**Risk disclosure:** Small- and mid-capitalization issues tend to be more volatile and less liquid than large-capitalization issues.

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**The performance quoted represents past performance. Past performance is not indicative of future results. Investment returns and principal values 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 quoted. For current to most recent month-end performance, visit diamond-hill.com.**

Performance assumes 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.

Index data source: London Stock Exchange Group PLC. See diamond-hill.com/disclosures for a full copy of the disclaimer.

Securities referenced may not be representative of all portfolio holdings. Contribution to return is not indicative of whether an investment was or will be profitable. To obtain contribution calculation methodology and a complete list of every holding's contribution to return during the period, contact 855.255.8955 or info@diamond-hill.com.

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