DIAMOND HILL

INVESTED IN THE LONG RUN

Small-Mid Cap Fund

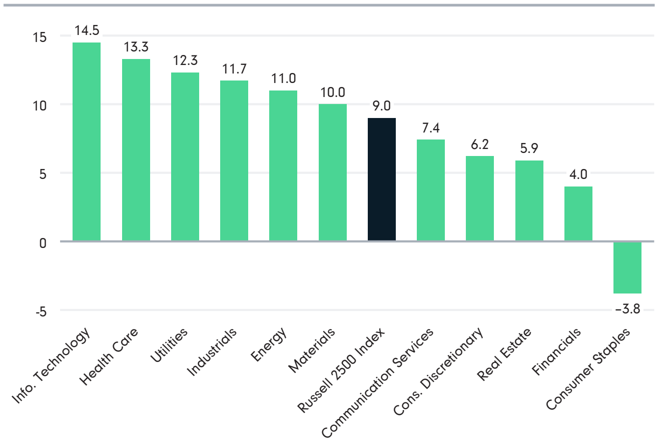
As of 30 Sep 2025

Market Commentary

Markets continued their year-to-date rise in Q3, with US stocks gaining over 8% (as measured by the Russell 3000 Index) and taking calendar-year gains to over 14%. Small-cap stocks had the best quarter, up over 12%, while large caps gained roughly 8% and mid caps were up 5%. From a style perspective, growth led at the larger end of the cap spectrum, while small-cap growth and value stocks delivered nearly identical returns — with small value slightly ahead (up over 12%).

From a sector perspective, the artificial intelligence (AI)-fueled boom in technology (14%) continues, with the sector leading and driving a good share of the Russell 2500 Index's positive return. Other meaningful positive contributors were health care (13%) and utilities (12%). The sole sector in the red in Q3 was consumer staples, which fell nearly -4%.

3Q25 Russell 2500 Index Sector Returns (%)



Source: FactSet, as of 30 Sep 2025.

Team

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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 high-quality companies the 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 growth outlooks — 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 2500 Index in Q3. Relative weakness was concentrated among our health care holdings which, though likewise in the black during the quarter, underperformed benchmark peers. Our real estate holdings also posed a relative headwind. Conversely, our financials and consumer discretionary holdings provided a boost to relative returns.

On an individual holdings' basis, top contributors to return in Q3 included Mr. Cooper Group and Ciena Corporation. 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.

Strong demand for networking systems company Ciena's hyperscaler offerings has helped drive strong earnings growth. Hyperscaler demand is being fueled by AI-related projects, which Ciena's management team believes should translate to meaningfully elevated and durable demand in the period ahead.

Other top Q3 contributors included Red Rock Resorts, WESCO and Huntington Ingalls Industries. 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. Industrial distributor WESCO's data center business is growing rapidly, in turn driving revenue growth. Further, we were encouraged by signs of strong organic growth and nascent signs of improvement in the company's high-margin utility business. We believe over the long term, WESCO can leverage its significant scale advantage to take share and improve margins. It is also well positioned to benefit from several secular tailwinds (aside from data centers), which we don't believe are fully appreciated by the market.

US Department of Defense (DOD) and Navy supplier Huntington Ingalls are seeing early signs of progress from its recent efforts to improve employee attrition. We continue to believe Huntington Ingalls is one of the best positioned defense companies to meet the DOD's need to prepare for a potential conflict in the Pacific — which should ensure strong demand for the next five-plus years. Furthermore, as its recent labor issues abate, the company should be able to improve margins over time.

Among our bottom individual contributors in Q3 were CarMax and Ryman Hospitality Partners. Used car dealer CarMax saw a meaningful slowdown in used retail vehicle sales as well as higher credit-loss provisions in its captive financing arm. We believe consumers likely pulled forward vehicle purchases ahead of tariffs, leading to a recent industry lull. Combined with uncertain consumer sentiment and heightened competition, shares were pressured in the quarter. However, we believe CarMax remains capable of taking share in a fragmented market over the longer term and are confident in the management team, which is focused on finding efficiencies to enable it to spend more on consumer-facing initiatives.

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.

Other bottom contributors included GoDaddy, Perrigo and Progress Software. GoDaddy designs and develops cloud-based products, and shares declined in the quarter as sales slowed and its customer base contracted. Further, investors are weighing whether and to what extent AI may impact GoDaddy's business in the future. Shares of over-the-counter health and wellness solutions provider Perrigo were pressured as revenues have yet to recover from a sizeable loss in its infant formula business. Business exits and weak consumption also weighed on revenues in the company's over-the-counter business. Progress Software develops, deploys and manages AI-powered applications and digital experiences. During the quarter, it acquired a small, AI-adjacent company outside the company's typical wheelhouse. Further, the software industry has broadly faced pressure from AI disruption threats.

Portfolio Activity

Though markets have continued rising throughout the year, we have continued finding individual companies whose prices we believe are not reflective of their long-term growth outlooks. Accordingly, we initiated several new positions in Q3, including Toro Company, Equitable Holdings, Cooper Companies, Revvity and Triumph Financial.

Toro Company is a leading provider of equipment for turf and landscape management, snow and ice management and underground construction. It has leading market share and strong distribution and service networks that incentivize customers to replace like for like, generating a strong revenue source for the company. Amid a challenging macroeconomic environment and bloated channel inventories, recent results have been soft — however, we believe the long-term fundamentals remain intact and expect the company to generate solid results over the next 5 to 10 years.

Equitable Holdings is amid a transition from a life insurance company to a more diversified financial company with a better earnings, profitability and cash-generation profile, which we don't believe is reflected in the current valuation.

Cooper Companies is a medical devices company operating CooperVision, a global leader in contact lenses, and CooperSurgical, a leader in women's health and fertility care. We anticipate the contact lens industry will remain healthy and has an ample runway for growth as customers trade up for higher quality lenses. Further, Cooper Companies has an opportunity to take modest share in the contact lens business. CooperSurgical currently faces cyclical headwinds but operates in an end market that should benefit from several secular tailwinds. The company recently made heavy investments in manufacturing capacity. Given the appealing outlook, we capitalized on slower revenue growth in both CooperSurgical and CooperVision, which we view as transitory, to initiate a position.

Revvity is a life sciences tools and diagnostics company that provides instruments and consumables for preclinical drug research. The company has upgraded its product portfolio to offerings which generate higher margins, and so we took advantage of investors' concerns about biopharmaceuticals policy uncertainty to add a position at a discount to our estimate of intrinsic value.

Triumph Financial is a Texas-based community bank that has developed a comprehensive transportation technology business over time. Due to the multi-year slowdown in the transportation industry, we were able to buy the stock at a favorable price.

We funded these purchases in part with the proceeds from several sales in the quarter, including medical technology company Enovis, regional banks Bank OZK and Live Oak Bancshares, financial technology company Broadridge Financial Solutions and dental products manufacturer Envista Holdings, which we sold in favor of better positioned opportunities elsewhere. We also exited Enstar Group, which acquires and manages insurance and reinsurance companies and portfolios, as it was acquired by a group of private equity investors.

Market Outlook

Amid what could potentially be a bubble (only hindsight will tell), sentiment around AI is driving remarkable equity market returns year to date. In many of these cases, we believe sentiment is at least partially disconnected from reality given AI's potential is yet to be fully borne out. Not only are investors rewarding companies with even minimal potential exposure to AI, but they are disproportionately punishing companies whose business models may be at any risk from AI disruption or whose businesses are not sufficiently (or at all) exposed to AI — said another way, AI seems to be all many investors care about.

This environment can produce interesting opportunities for discerning investors to unearth companies with attractive business models that markets are either currently ignoring altogether or disproportionately punishing. Over the long term, we believe such high-quality companies could offer solid returns to patient investors.

On the other hand, investors' narrow focus on one major theme is impacting sector and index performance and, in our view, embedding a significant amount of optimism in share prices. Such an investing backdrop can be a challenging one, especially if you are inclined to swim against the tide — which we generally are. However, we are not contrarian for its own sake; rather, we find it hard to justify the valuations of some top-performing companies when much remains to be seen about whether — and how — AI will impact businesses in the future.

Further complicating the macroeconomic picture is the state of the consumer, which is hard to clearly discern. It seems there is a growing divide between those at the top end of the income spectrum who are holding up remarkably well and whose spending levels are either steady or increasing and those in the middle or at the bottom — a share of the population among whom jobs have become increasingly scarce and who are feeling inflation's pinch meaningfully. Given consumers' significant contribution to GDP, overall softening in their spending could pose a risk to the double-digit corporate earnings growth projections expected in 2026.

The selloff in late Q1 and early Q2 started to create some attractive investment opportunities. However, the window to capitalize on those was short given the market's subsequent rebound. Equity markets are back to above-average valuation levels, making it difficult to expect returns that match historical averages over the next five years. 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.

Period and Annualized Total Returns (%)

	Since Inception (30 Dec 2005)	15Y	10Y	5Y	3Y	1Y	YTD	3Q25	Expense Ratio (%)
Class I (DHMIX)	8.39	9.86	8.00	12.58	11.70	6.49	7.50	6.34	0.92
Russell 2500 Index	8.97	11.24	10.52	12.09	15.65	10.16	9.48	9.00	—
Russell 2500 Value Index	8.04	10.28	9.68	14.96	15.39	9.00	9.29	8.17	—

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. 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 include Investor share performance achieved prior to the creation of Class I shares.
Fund holdings subject to change without notice.
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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.
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). 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. Not FDIC insured | No bank guarantee | May lose value