

DIAMOND HILL

INVESTED IN THE LONG RUN

Select Fund

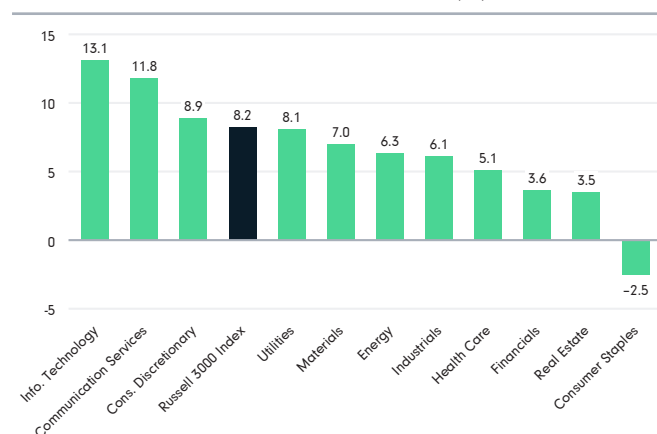
As of 30 Sep 2025

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 (13%) and communication services (12%) stocks continues, with the two sectors leading and driving much of the index's positive return. Another meaningful positive contributor was the consumer discretionary sector, up nearly 9%. The sole sector in the red in Q3 was consumer staples, which fell -2.5%.

3Q25 Russell 3000 Index Sector Returns (%)



Source: FactSet, as of 30 Sep 2025.

Team

Austin Hawley, CFA
Portfolio Manager

Rick Snowden, CFA
Portfolio Manager

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 3000 Index in Q3. Relative weakness was partially attributed to our information technology exposure — both our underweight to the index's top performing sector and our holdings, which, though positive, trailed benchmark peers. Likewise, our consumer discretionary holdings also posed a relative headwind. Conversely, our industrials and financials holdings were sources of relative strength.

Among our top individual contributors in Q3 were Mr. Cooper Group and Huntington Ingalls Industries. 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.

US Department of Defense (DOD) and Navy supplier Huntington Ingalls is 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.

Other top contributors in the quarter included Cimpres, Red Rock Resorts and Coherent. Custom printing services provider Cimpres's management team continues to impress us with its ownership mindset, long-term focus and strong alignment with shareholders — as evidenced recently by its intermediate-term goals for solid revenue and profits growth. 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. Coherent, a global leader in materials, networking and lasers for the industrial, communications, electronics and instrumentation markets, is benefiting from strong demand for its data center-related products, especially its optical transceivers.

Among our bottom individual Q3 contributors were American International Group (AIG) and CarMax. Property and casualty insurance company AIG underperformed in sympathy with many industry peers. The benefit of pricing in excess of loss costs that property and casualty insurers have enjoyed the past several years is waning and has weighed on the group in recent months.

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.

Other bottom Q3 contributors included Salesforce, Antero Resources and SBA Communications. Customer relationship management (CRM) software company Salesforce seems to be facing higher customer attrition rates, fueling investors' existing concerns about how AI may disrupt the company's business. Shares of Antero Resources, a gas-focused exploration and production company, were pressured against the backdrop of normal seasonally lower natural gas prices during the summer months. Further, the company announced a new CEO in August, likely contributing to some heightened uncertainty given the role the outgoing CEO played in shaping Antero during his tenure. SBA Communications, a leading owner and operator of wireless communications infrastructure, continues to see slow 5G deployment following its initial build-out.

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 four new positions in Q3, including Colgate-Palmolive, Berkshire Hathaway, Zoetis and Adobe.

Colgate-Palmolive is the market leader in several categories across attractive end markets, such as household goods, personal care and pet nutrition. The company's leading positions combined with the everyday-use nature of its products should benefit Colgate moving forward. Recent concerns around consumer weakness and inventory destocking weighed on the share price and allowed us the opportunity to initiate a position.

Diversified holding company Berkshire Hathaway has generated strong results across its portfolio of operating subsidiaries. It has built a significant cash position that provides stability and positive optionality in the event high valuations for both public and private companies return to more normal levels and allow it an opportunity to acquire new businesses. We capitalized on Warren Buffett's announced retirement at the end of 2025, which pressured shares, to add the position to the portfolio.

Zoetis is a leader in the animal health market with leading products for companion animals (pets) and livestock. The company has a broad portfolio with multiple growth drivers and a strong pipeline to address several undertreated pet conditions. Concerns about one of its arthritis drugs used in dogs have pressured the share price recently, allowing us to introduce a position below our estimate of intrinsic value.

Adobe is the market's largest provider of creative content software and enjoys a sizeable moat. Design professionals in all verticals — graphic designers, video editors, web and mobile app creators, etc. — rely heavily on Adobe's robust suite of tools. It also owns direct customer engagement software and the ubiquitous Adobe Acrobat platform, two assets we think are underappreciated by the market. Despite valid concerns about greater competition and AI disruption going forward, we think Adobe's solution breadth and diversification, incumbency and strong positioning upmarket, as well as its ongoing willingness to innovate, should position it well to weather shifts in the competitive environment. We believe Adobe has the potential to generate solid fundamentals over the next several years relative to the share price at which we initiated a position.

We funded these purchases in part with the proceeds from the sale of biopharmaceutical company Pfizer and athletic apparel manufacturer lululemon in order to deploy our capital to more compelling opportunities elsewhere.

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 (DHLTX)	9.91	12.57	12.06	17.22	19.56	6.99	8.82	4.98	0.87
Russell 3000 Index	10.78	14.23	14.71	15.74	24.12	17.41	14.40	8.18	—
Russell 3000 Value Index	8.17	11.12	10.63	13.92	16.76	9.33	11.49	5.63	—

[Click here](#) for holdings as 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. Small- and mid-capitalization issues tend to be more volatile and less liquid than large-capitalization issues. The views expressed are those of Diamond Hill as of 30 September 2025 and are subject to change without notice. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice. Investing involves risk, including the possible loss of principal.

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.

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.

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