

DIAMOND HILL

INVESTED IN THE LONG RUN

Large 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 (13%) and communication services (12%) stocks continues, with the two sectors leading and driving much of the Russell 1000 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 -2.6%.

3Q25 Russell 1000 Index Sector Returns (%)



Source: FactSet, as of 30 Sep 2025.

Team

Austin Hawley, CFA
Portfolio Manager

Brian Fontanella, CFA
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 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 declined slightly in Q3 and trailed the Russell 1000 Value Index. Relative weakness was concentrated among our information technology holdings, which trailed benchmark peers. Our consumer discretionary holdings also posed a relative headwind, as did our financials holdings — which, though positive on an absolute basis, trailed benchmark names. Conversely, our materials and industrials holdings were additive in the quarter.

Among our top individual contributors in Q3 were General Motors and Martin Marietta Materials. Automobile manufacturer General Motors benefited from growing clarity around tariffs, which is in turn improving visibility into the likely impact on the company's business. Further, investors seemed cheered by the prospect of rate cuts, which could help bolster consumer borrowing and drive increased sales in the quarters ahead.

Heavy building materials supplier Martin Marietta is taking steps to optimize its portfolio of product offerings — including the upcoming divestiture of its Midlothian cement plant to Quikrete. As infrastructure and non-residential — and possibly housing — construction seem poised to improve in the period ahead, Martin Marietta should benefit from its competitive positioning as one of the US's largest aggregates producers and distributors.

Other top Q3 contributors included L3Harris Technologies, Caterpillar and Sysco Corporation. Leading defense electronics supplier L3Harris is capitalizing on strong demand from the US government and its allies in its key areas of expertise — including small satellites, secure communications and rocket motors — to drive higher earnings growth. Further, the company's cost-cutting efforts are bearing fruit, as evidenced by improved execution at Aerojet Rocketdyne, which L3Harris acquired two years ago. We continue to believe the share price does not yet reflect the company's opportunity amid the US Department of Defense's preparations for potential threats.

Shares of heavy construction machinery manufacturer Caterpillar rose amid positive sentiment around the company's power-generation business, which is tied to data center growth. Sysco Corporation, a food products manufacturer, saw incrementally positive sales performance through the summer months as the company seems to be benefiting from internal initiatives — which, if similar progress continues in the quarters ahead, would be a welcome development.

Among our bottom Q3 individual contributors were CarMax and lululemon. 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.

Athletic apparel manufacturer lululemon's efforts to improve merchandise this year have seemingly fallen flat with customers — requiring the company to reset its strategic plan and setting back the timeline for its expected reacceleration. Increased competition and evolving fashion trends are also weighing on sales, and tariffs and the removal of the de minimis exemption (which exempted imports worth \$800 or less from taxes) are expected to disproportionately affect lululemon — and will take time to mitigate. We exited our position during the quarter in favor of more attractive investment opportunities elsewhere.

Other bottom individual contributors included American International Group (AIG), Colgate-Palmolive and Texas Instruments. Shares of property and casualty insurance company AIG were pressured alongside many industry peers as the benefit from pricing in excess of loss costs that insurers have benefitted from over the past few years is waning. Consumer goods company Colgate Palmolive faced consumer weakness — which has broadly pressured the consumer packaged-goods space — and inventory destocking in the quarter, particularly at online retailers, which in turn pressured shares. Shares of semiconductor manufacturer Texas Instruments declined as demand in its core industrial and automotive end markets has recovered slower than expected. However, we maintain our conviction in the company's competitive advantages in manufacturing, product breadth and direct distribution and anticipate these headwinds will be short term.

Portfolio Activity

Though markets have continued rising throughout the year, we have still found individual companies whose prices we believe are not reflective of their long-term growth outlooks. Accordingly, we initiated four new positions in Q3, including FedEx, Thermo Fisher Scientific, Zoetis and Equitable Holdings.

Transportation, e-commerce and business services company FedEx has materially cut its structural costs and has plans for further cuts — which we think could result in a more efficient and profitable parcel business as volumes recover in the period ahead. The company's LTL (less-than-truckload) business is the industry's largest by revenue and has the second-highest margins — and FedEx plans to spin it off in June 2026, which will subsequently give us exposure to a high-quality business positioned for growth as industrial production improves. FedEx shares have been pressured recently amid an extended freight recession — we capitalized on the opportunity to initiate a position in a high-quality business with an attractive long-term growth outlook at a compelling discount to its intrinsic value.

Thermo Fisher Scientific is a leader in the medical tools and diagnostics space. We believe it is a well-run business that is structurally advantaged to take market share given the scale and breadth of its product portfolio. Against the backdrop of a slowdown in its end markets, we capitalized on a depressed share price 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.

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

We funded these purchases in part with the proceeds from the sales of lululemon as well as US-based mass retailer Target. As the competitive landscape has evolved, Target faces the possibility it will need to reinvest heavily to drive better sales. Given this, we exited our position to fund more attractive investment 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 the 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 (29 Jun 2001)	20Y	15Y	10Y	5Y	3Y	1Y	YTD	3Q25	Expense Ratio (%)
Class I (DHLRX)	8.82	8.73	11.22	10.65	10.70	13.80	1.87	4.18	-0.09	0.67
Russell 1000 Value Index	7.84	8.19	11.24	10.72	13.88	16.96	9.44	11.65	5.33	—
Russell 1000 Index	9.40	10.92	14.49	15.04	15.99	24.64	17.75	14.60	7.99	—

[Click here](#) for holdings as of 30 September 2025.

Risk disclosure: Overall equity market risks may affect the portfolio's value.

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. 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