

Small Cap Strategy

As of 31 Dec 2025

DIAMOND HILL

INVESTED IN THE LONG RUN

Aaron Monroe, CFA
Portfolio Manager

Kristen Sheffield, CFA, CIPM
Portfolio Specialist

Quarterly Snapshot

Performance

The Strategy returned 4.88% (net of fees) and the Russell 2000 Index returned 2.19%.

Key Drivers

Stock selection in industrials and consumer discretionary were the largest relative positives, while stock selection in health care was by far the largest relative negative in the quarter.

Summary

Q4 capped off a strong but volatile year in equity markets. We believe heightened volatility is likely to continue, and we remain focused on constructing a portfolio of resilient businesses well suited to navigate ongoing uncertainty and take advantage of the opportunities market volatility presents to us.

Market and portfolio review

US equity markets posted positive returns once again in Q4 with the Russell 2000 Index returning 2.19%, roughly even with the Russell 1000 Index return of 2.41% for the quarter. Interestingly, the smallest end of the market cap range fared even better during the quarter with the Russell Microcap Index increasing 6.25%.

From a sector perspective, health care (+18.6%) was by far the best-performing sector in the Russell 2000 Index, propelled by strength in both biotech and pharmaceuticals. In a distant second, materials were +5.0% as metals and mining-related stocks continued to perform well. Consumer staples (-4.6%), information technology (-4.5%) and consumer discretionary (-4.1%) were the worst-performing sectors.

Heightened uncertainty, increased headline and geopolitical risk, and a corresponding backdrop of volatility seemed to be the name of the game in 2025, and Q4 continued to fit that pattern. The momentum-driven, low-quality rally that took off in earnest in early August continued for most of the quarter, but the euphoric sentiment hit the brakes a bit in December. This appeared to be driven by a combination of greater investor scrutiny around AI beneficiaries, increased discussion of market bubbles, and mixed signals around labor and the consumer. Despite posting a slightly negative return in December, the Russell 2000 Index finished the year up 12.81%. Several factors continue to support the case for potential ongoing strength heading into 2026, including a solid US macro backdrop, lower interest rates and increased investor optimism around the near-term impact of the One, Big, Beautiful Bill Act.

While we expect news flow and volatility are likely to remain elevated, we continue to focus on owning resilient businesses that are built with the ability to take advantage of as well as endure through ongoing uncertainty. We continue to see opportunity among businesses with exposure to industrial infrastructure, defense modernization and critical materials – all areas that have been neglected from an investment standpoint over the previous decade. We have also increasingly been finding opportunities within the real estate and health care sectors as of late. As we continue to scour our investable universe to identify resilient businesses, we have been pleased to continue to find pockets of opportunity through the various bouts of volatility, something we do not see abating anytime soon.

Key contributors

- Regional airline **Allegiant Travel** reported strong near-term demand trends in Q4 alongside a generally softer jet fuel environment, which improved investor sentiment around its ability to deliver margin improvement.
- **Triumph Financial** provides banking and other services with a niche focus on the transportation industry, including its innovative payments platform – TriumphPay. In Q4, shares rebounded on increasing optimism for an end to the longest-running freight recession in history.
- **Taseko Mines**, a copper mining company, saw shares move higher in Q4 as copper prices increased more than 15%. Performance was also supported by growing optimism around the company's pending project in Florence, AZ.

Key detractors

- **Oil-Dri**, a leading provider of branded and private-label cat litter as well as other sorbent materials, reported solid but more normalized results against a backdrop of more difficult comparisons. No change to our long-term view – this is a business that continues to execute very well, owns tangible assets with a proven expertise in creating value in a specialized niche, and has several structural growth drivers going forward.
- **Rocket Companies**, a fully integrated mortgage provider which we received shares of following the recent closing of its acquisition of Mr. Cooper, underperformed due to evolving market expectations surrounding the path of interest rates, which is key driver of its mortgage originations business.
- **Bank OZK**, a regional bank with an established expertise in commercial real estate lending, saw shares decline following Q3 earnings as management communicated a more tepid earnings outlook for 2026. An increasing group of anticipated loan payoffs points to more challenging loan growth, while continued investment in the franchise is expected to drive higher expenses. Together, these factors will weigh on 2026 earnings growth, but long-term earnings potential remains intact.

New positions

- **Centerspace** is an apartment REIT with a footprint concentrated in the Upper Midwest and Mountain West. We believe the company is well positioned long term given its quality portfolio in differentiated markets and potential for operational upside as the business scales over time.
- **Transcat** provides calibration, repair and inspection to highly regulated industries including life sciences, aerospace and defense. The company has strong recurring revenue streams driven by regulation and a track record of successful acquisitions while maintaining a strong balance sheet.
- We initiated a position in **Alexandria Real Estate Equities** – the largest owner of US life-sciences real estate with a concentration in major biotech research clusters – as the sector has been under pressure from higher interest rates, lower venture capital funding, regulatory pressure and overbuilding of new lab space. Additionally, the company is working through a large, poorly timed development and land pipeline resulting in a big reduction in earnings and a dividend cut. After several years of underperformance, the shares are now deeply discounted and reflect many of these challenges; however, the company still maintains a solid balance sheet, a long operating history and a well-located portfolio.

- **MVB Financial** is a banking-as-a-service (BaaS) provider with a five-branch community banking franchise in West Virginia. Following headwinds that stifled growth for fintech-focused banks and broader industry challenges over the last few years, MVB now has a rich pipeline of fintech partners that should support growth long term.

Eliminated positions

- We exited our position in oil and gas producer **Civitas Resources** after the company announced an all-stock acquisition by SM Energy. While both companies trade at a discount to our estimates of intrinsic value, there is significant uncertainty around the long-term prospects for the combined entity given the lack of operational overlap.
- **Rocket Companies**, following its 2025 acquisition of Mr. Cooper, became a combined company with a market capitalization exceeding \$50 billion. As a result, the position moved well beyond our small-cap mandate, and we exited the position.
- Shares of consumer packaged goods company **Post Holdings** and **WESCO International**, a leading distributor of electrical products, were sold as prices approached our estimate of intrinsic value.

Period and Annualized Total Returns (%)	Since Inception (31 Dec 2000)	20Y	15Y	10Y	5Y	3Y	1Y	YTD	4Q25
Gross of Fees	11.19	8.63	9.75	9.86	13.18	17.14	12.95	12.95	5.12
Net of Fees	10.11	7.59	8.70	8.85	12.16	16.08	11.93	11.93	4.88
Russell 2000 Index	8.21	8.20	9.47	9.62	6.09	13.73	12.81	12.81	2.19
Russell 2000 Value Index	8.61	7.40	8.73	9.27	8.88	11.73	12.59	12.59	3.26

Calendar Year Returns (%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross of Fees	-5.90	14.32	41.64	5.99	-2.44	15.61	12.05	-14.03	22.92	0.77	34.17	-13.90	24.47	14.32	12.95
Net of Fees	-6.84	13.18	40.22	4.93	-3.42	14.45	10.93	-14.85	21.82	-0.14	32.97	-14.67	23.35	13.29	11.93
Russell 2000 Index	-4.18	16.35	38.82	4.89	-4.41	21.31	14.65	-11.01	25.52	19.96	14.82	-20.44	16.93	11.54	12.81
Russell 2000 Value Index	-5.50	18.05	34.52	4.22	-7.47	31.74	7.84	-12.86	22.39	4.63	28.27	-14.48	14.65	8.05	12.59

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