Small-Mid Cap Fund

As of 31 Dec 2025

DIAMOND HILL
INVESTED IN THE LONG RUN

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Quarterly Snapshot

Performance

The Fund returned 1.05% and the Russell 2500 Index returned 2.22%.

Key Drivers

Stock selection within health care was the largest relative detractor in Q4 while stock selection within materials and information technology were both notable, positive contributors.

Summary

We are somewhat cautious with broad equity markets trading near all-time highs, propelled by AI-driven market exuberance. Our portfolio positioning has become incrementally more defensive over the past quarter.

Market and portfolio review

US equity markets posted positive returns once again in Q4, with the Russell 2500 Index returning 2.22%, roughly even with the Russell 1000 Index return of 2.41%. Interestingly, the smallest end of the market cap range was the strongest segment during the quarter, with the Russell Microcap Index increasing 6.25%. The middle portion of the market, however, was an outlier, as the Russell Mid Cap Index was basically flat, up just 0.16%.

From a sector perspective, health care, driven by very strong performance from biotech, was far and away the best-performing sector (+14.4%) in Q4, with communication services (+3.5%) and materials (+3.4%) coming in a distant second and third. Several sectors were in the red, with consumer staples (-7.4%), consumer discretionary (-2.8%) and utilities (-1.5%) rounding out the bottom three.

The momentum-driven, low-quality rally that took off in earnest in early August continued for most of the quarter, creating a bit of a headwind from a relative performance perspective as non-earners and lower-quality businesses were some of the stronger-performing areas, particularly down the market cap spectrum. Unsurprisingly, underperformance in our health care holdings, a lack of exposure to biotech, and more defensive positioning in areas such as consumer staples and real estate were the primary drivers of underperformance in the quarter. We did see this somewhat euphoric sentiment hit pause a bit in December, seemingly driven by a combination of greater investor scrutiny around artificial intelligence (AI), increased discussion of market bubbles and mixed signals around labor and the consumer.

Our positioning within the portfolio has continued to become incrementally more defensive. Recently, we have found stocks with a little less debt and less cyclicality more appealing. We were pleased with the number of new opportunities we found in the quarter, which ran the gamut in terms of sectors and utilizing our full opportunity set from a market cap perspective. We continue to find that health care and industrials have been well-stocked ponds to fish in and are two areas where we continue to find significant opportunities. We remain cautious of the elevated valuations in equity markets and believe the degree of difficulty for ongoing strength has increased.

Key contributors

- **Ciena**, a networking systems company, saw shares increase meaningfully during the quarter amid optimism around hyperscaler and AI–related demand. The company has also benefited from growing cloud spending, which has supported its pluggables and data interconnect business.
- Electrical products distributor **WESCO International** outperformed in Q4 after reporting solid Q3 results and raising 2025 guidance. Better-than-expected organic growth was driven by its rapidly expanding data center business, which reached nearly 20% of total revenue.
- **Huntington Ingalls Industries**, the largest shipbuilder for the US Navy, outperformed during the quarter after reporting strong Q3 results and raising full-year guidance. Shares also benefited after the award of a new frigate contract and discussion of a potential "Trump-class" battleship, both of which were viewed as meaningful opportunities. Performance was further supported by improving execution as recent labor challenges eased.

Key detractors

- Despite reporting solid Q3 results, shares of auto parts manufacturer **Gates Industrial** declined in Q4 due to weakness in many of its end markets. Long term, we believe the company is well positioned to benefit from several global trends — namely urbanization, automation and infrastructure development — and the company should continue to improve margins over time.

- **Perrigo**, an over-the-counter (OTC) pharmaceuticals manufacturer, saw shares decline following weak results in its infant formula and European OTC businesses. Long term, the company is conducting a strategic review of its infant formula business and will refocus on consumer-oriented operations by expanding the range of products offered alongside its store-brand OTC portfolio, actions we view positively.

- Shares of self-storage **REIT CubeSmart** declined as the slowdown in existing home sales persisted, leading to lower occupancy for storage units. While this weaker backdrop will likely persist in 2026, we believe the company remains well positioned long term due to its economies of scale, brand awareness and the industry's high barriers to entry.

New positions

- **SBA Communications** is a wireless tower REIT that owns infrastructure essential to mobile networks. Shares have been pressured by higher interest rates and slower wireless spending, despite a long runway for 5G-related upgrades and highly profitable incremental leasing. We believe the current valuation disconnect provides a compelling opportunity to own a business providing durable, necessary infrastructure with attractive long-term economics.

- We initiated a position in cloud-based web services company **Wix.com** as shares fell on concerns surrounding Generative AI. However, we believe these concerns are somewhat misplaced, as the company's core capabilities, coupled with its strong partner ecosystem and critical back-end functionality for partners, should position it well long term.

- Internet and media conglomerate **IAC** has a history of creating value through business building and mergers and acquisitions, often in markets transitioning from an offline to online presence. We believe IAC's largest holding, MGM, is currently undervalued and took the opportunity to initiate a position at a discount to our estimate of intrinsic value.

- **Booz Allen Hamilton** is a leading US government and military contractor, providing technology consulting, AI, cybersecurity, engineering and mission operations services to US federal agencies across defense, intelligence and civil sectors. Shares were pressured by negative headlines around the Department of Government Efficiency initiatives and the recent government shutdown, creating a more attractive valuation. Long term, we believe the company is well positioned given its differentiated technology capabilities and the likelihood of sustained demand from the US government.

- **Westlake Corp.**, a low-cost chemicals producer and emerging supplier of building products, is managing supply-side headwinds in its commodity businesses by adjusting capacity. As the housing market recovers from a prolonged downturn in new construction, we believe both segments of the business should benefit over the long term.

- 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 also 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.

- **Invitation Homes**, the largest owner and manager of single-family rental homes in the US, operates a high-quality portfolio across the Western US, Sunbelt and Florida. The company has faced near-term pressure from slower job growth and reduced immigration, but its portfolio has benefited from limited new supply, renter demographics favoring single-family homes and a favorable rent-versus-buy dynamic. Long term, we believe Invitation will benefit from higher rents and strategic acquisitions to further build its portfolio.

- **General Mills**, a food and pet nutrition company with leading positions across several product categories, faced near-term volume pressure as consumer behavior shifted following significant post-pandemic price increases. The company has reinvested productivity savings into pricing and advertising, actions aimed at supporting the long-term health of its brands.

Eliminated positions

- Shares of homebuilder **Century Communities**, specialized hydraulics and electronics manufacturer **Helios Technologies** and apartment REIT **UDR** were sold as prices approached our estimate of intrinsic value.
- Business process management company **WNS Holdings** was eliminated from the portfolio after an acquisition by Capgemini closed in an all-cash transaction.
- We exited our position in automotive supplier **Lear Corp.** given shifts in electric vehicle demand and slowing growth at some automakers. While the company remains a stable business in the auto industry, its e-systems segment has struggled to grow margins amid changing hybrid and electric vehicle production schedules, and increased exposure to Chinese original equipment manufacturers has not been enough to materially lift volumes.

Period and Annualized Total Returns (%)

	Since Inception (30 Dec 2005)	20Y	15Y	10Y	5Y	3Y	1Y	YTD	4Q25	Expense Ratio (%)
Class I (DHMIX)	8.34	8.34	9.10	7.98	8.20	9.39	8.63	8.63	1.05	0.92
Russell 2500 Index	8.97	8.97	10.38	10.40	7.26	13.75	11.91	11.91	2.22	—
Russell 2500 Value Index	8.10	8.10	9.56	9.72	10.02	13.21	12.73	12.73	3.15	—

Click here for holdings as of 31 December 2025.
Risk disclosure: Small- and mid-capitalization issues tend to be more volatile and less liquid than large-capitalization issues.
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Fund holdings subject to change without notice.
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