

# DIAMOND HILL

INVESTED IN THE LONG RUN

## Large Cap Fund

As of 31 Mar 2025

### Market Commentary

Markets were mixed in Q1 as the new presidential administration made repeated waves with an avalanche of activity, which left markets uncertain of the likely path forward. For the quarter, US stocks fell -4.7% (as measured by the Russell 3000 Index), notching markets' first quarterly decline since Q3 2023. Mid-cap stocks held up best, falling a more modest -3.4%, while large caps were down -4.5%. Smaller stocks were hit harder, falling -9.5% – a relatively unsurprising development given smaller companies' shares are generally more volatile as macroeconomic uncertainty increases. From a style perspective, value fared better up and down the cap spectrum, with large-cap value managing a positive gain of +2.1%. Mid-cap value stocks fell -2.1%, compared to -7.1% for their growth counterparts, while small-cap value stocks declined -7.7% versus -11.1% for small growth (all returns as measured by their respective Russell indices). The shift from growth to value was also relatively unsurprising given the flight to safety prompted by tremendous uncertainty around trade and other fiscal policy shifts in the US.

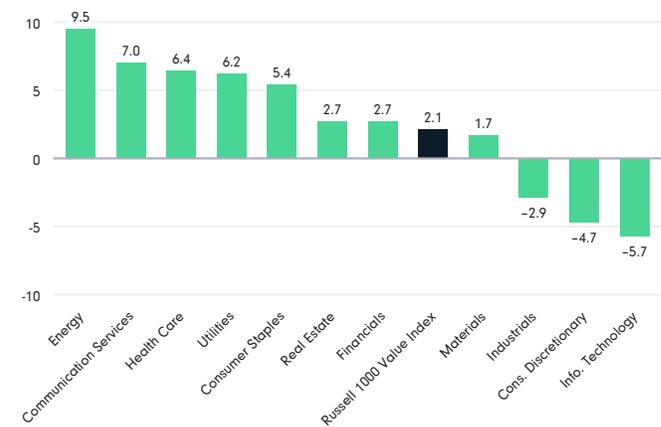
From a sector perspective, likewise, more defensive sectors in the Russell 1000 Value Index led in the quarter, while cyclical stocks fell out of favor. Energy stocks were the best performers, up +9.5% amid supportive language from President Trump's administration about its willingness to increase US oil production. Communication services also rose nicely, up +7.0%, as did health care, which rose +6.4% and utilities, which gained +6.2%. Conversely, information technology stocks were hit hardest, declining -5.7%, while consumer discretionary stocks fell -4.5%.

### Team

**Austin Hawley, CFA**  
Portfolio Manager

**Brian Fontanella, CFA**  
Portfolio Specialist

### 1Q25 Russell 1000 Value Index Sector Returns (%)



Source: FactSet, as of 31 Mar 2025.

What began in Q4 – market leadership transitions in anticipation of potential winners and losers from a major shift in executive-level policy direction – vigorously continued in Q1. To some extent, economic data took a backseat in the quarter as investors seemed to focus narrowly on the likeliest implications of major trade policy shifts announced during the quarter by President Trump. Shortly after the quarter concluded, Trump announced a raft of tariffs to go into effect immediately on what he dubbed “Liberation Day.” As has been the case since Trump began increasing tariffs, countries are responding in various ways, with some reaching out to the US to negotiate better rates and others – notably, China – choosing to retaliate with their own high tariff rates. Many companies have preemptively announced significant investments in their US operations – ostensibly moves aimed at avoiding tariffs

themselves. Ultimately, whether the “Liberation Day” moniker goes down in history or infamy remains to be seen. What is clear is markets are very nervous about the president’s apparent determination to wholesale (and possibly singlehandedly) rework the global trade landscape, even with countries that have historically been significant trade allies, like Taiwan. We’ll have more thoughts on potential direction from here later in this communication.

Meanwhile, the Federal Reserve held rates in March, citing the likelihood tariffs increase inflationary pressures, while cutting its growth expectations for US GDP in 2025. And the US dollar – which one would generally expect to be bolstered relative to other global currencies as tariffs go up (higher prices for US goods increase demand for US dollars with which to pay for them) – counterintuitively fell as tariff language toughened, perhaps signaling investors’ growing concerns tariffs will contribute to a stagflationary US economic environment with high inflation and low or sluggish growth.

Globally, geopolitical uncertainty remains high, though there have been some signs of modest progress toward ending the war between Russia and Ukraine. Following a dramatic fall-out between President Trump and Ukrainian President Volodymyr Zelenskyy, the US and Ukraine seemed to slowly make their way back toward a minerals and mining deal which would meaningfully increase the US’s economic involvement in Ukraine and potentially pave the way for a broader peace deal between Russia and Ukraine. However, to date, Russian President Vladimir Putin has stymied the US’s attempts to broker a ceasefire between the two countries. War in the Middle East continues, too, as ceasefires between Israel and Hamas and Israel and Lebanon ended and violence across the region re-escalated. The US, too, struck Houthi rebels in Yemen toward the end of the quarter in an attempt to quell attacks on Red Sea shipping lanes.

While volatility is unsettling, it also introduces interesting investing opportunities for those who have been diligent in their research all along. We have no unique insight into how deep this correction will become, whether it will enter bear market territory or how long it will last. However, we know it has helped reset valuations and offered some compelling opportunities to purchase high-quality names at more attractive prices than we’ve seen in some time.

Once the trade-related dust settles, time will tell which sectors and individual companies are winners and losers. In the meantime, we will continue deploying our time-tested approach, which is well-built for uncertain market environments like we’re currently seeing – and which we wouldn’t be surprised to see persist for the foreseeable future.

## Performance Discussion

Our portfolio trailed the Russell 1000 Value Index in Q1. Relative weakness was concentrated among our consumer discretionary exposure – our holdings, as well as our overweight to the sector. Our consumer staples holdings also detracted from relative results. Conversely, our financials holdings were the primary relative tailwind in Q1.

Among our top individual contributors in Q1 were American International Group (AIG) and Abbott Laboratories. Property and casualty insurance company AIG is delivering high-quality results: Its most recently reported underlying loss ratio was better than expected, as were catastrophe losses and prior-year development. Further, the company continues generating revenue growth from both its commercial and consumer segments. We are pleased with the progress AIG is making to streamline its business and capitalize on opportunities for earnings growth better than its competitors. We believe it remains well-positioned to scale revenues efficiently and deliver sustainable value as it continues reducing expenses and returning excess capital via share repurchases.

Health care products manufacturer Abbott Laboratories is executing well, capitalizing on its diverse mix of businesses to drive growth. In Q1, the company announced European approval (CE Mark) for its Volt Pulse Field Ablation (PFA) system, which is designed to provide a new therapy option for people battling heart rhythm disorders such as atrial fibrillation.

Other top Q1 contributors included Berkshire Hathaway, Waste Management and HCA Healthcare. Diversified holding company Berkshire Hathaway has benefited from improved performance at GEICO, which is generating better underwriting results, policy growth and a lower expense ratio than peers. The company’s substantial excess capital provides ample opportunities for further investments and capital allocation looking forward.

Waste collection provider Waste Management benefited in Q1 from its relative insulation from potential tariff-related headwinds. Shares of health care facilities operator HCA Healthcare rebounded in Q1 from a Q4 selloff tied to concerns about heightened policy risks under the new administration, as underlying hospital fundamentals remain strong.

Among our bottom Q1 individual contributors were Regal Rexnord and Target. Power transmission components manufacturer Regal Rexnord faced pressure amid growing tariff-related concerns. Generally, its organic growth has held up better than peers', and though its leverage is somewhat elevated, merger synergies and debt paydown rates are beating expectations – factors which should position it well relative to competitors. We believe the recent weakness has been an overreaction and maintain our conviction in our thesis.

US-based mass retailer Target had a better-than-expected holiday quarter. However, sales trends to start 2025 have softened, and the market is increasingly concerned about consumers' health and Target's competitive positioning – sentiment which weighed on shares during the quarter.

Other bottom contributors in Q1 included lululemon athletica, General Motors and Capital One. Shares of athletic apparel manufacturer lululemon were pressured amid ongoing concerns about potential brand saturation in the Americas, its largest market. However, we believe the company is operating well and is positioned to improve US sales performance while continuing to grow international sales – factors that make the current valuation compelling, in our view.

Automobile manufacturer General Motors faces heightened uncertainty surrounding new tariffs along with overall macroeconomic concerns, which weighed on shares during the quarter. Credit card issuer Capital One – a new position in Q1 – faces a potential Department of Justice challenge to its merger with Discover, as well as concerns about weakening US consumers.

## Portfolio Activity

As volatility picked up sharply in the quarter, we were active in the portfolio – and we anticipate that as volatility continues into Q2, we will likewise attempt to capitalize on compelling opportunities to reposition the portfolio for the period ahead. In addition to Capital One, among the new positions we initiated in Q1 were MetLife and General Mills.

Capital One is one of the US's largest credit card issuers and is known for having the industry's best technology platform, which has helped drive improved operating efficiency and strong underwriting, and helps in refreshing card offerings – a key to maintaining its position in a highly competitive industry. Capital One announced the acquisition of Discover in early 2024 – a deal which should unlock growth potential as it gets Capital One closer to merchants and gives the company access to the data necessary to create more competitive card offerings than peers. Though the merger faces a Department of Justice challenge, we believe the current share price fails to appreciate the near- and long-term synergies once the deal is approved, and accordingly, we capitalized on the attractive valuation to initiate a position in the quarter.

Life insurance company MetLife holds leading market positions around the world in employee group benefits, life insurance, annuities and other asset management services. The company is returning significant capital to shareholders and has, in our view, a compelling valuation not only on an absolute basis, but also relative to competitors. We capitalized on this opportunity to add the position to the portfolio.

General Mills is a high-quality food and pet nutrition business with leading positions across a number of product categories. As consumers' behavior has shifted in response to large pandemic-induced price increases, the company has experienced near-term volume pressure. However, General Mills is actively reinvesting productivity savings into pricing and advertising, which should benefit the long-term health of its brands.

Among the positions we exited in Q1 were home improvement retailer Home Depot, utility operator Dominion Energy and diversified industrial and aerospace manufacturer Parker Hannifin – all of which we sold to redeploy our capital into more attractive investment opportunities.

## Market Outlook

As we start Q2, uncertainty is as high as it has been, arguably since the pandemic's earliest days. While markets struggle to digest the likeliest ramifications of the US's newly announced tariffs – whether they are largely a negotiation tactic whose economic impact will moderate over time as countries and companies reach better terms with the US, or whether they are here to stay for the long term and we will indeed see a significant reshaping of the world trade order – we are watching several factors particularly closely. Foremost, we are monitoring the relationship between the US and China, which is front and center in this trade showdown. As we write, President Trump has threatened a 104% tariff on China in response to its retaliatory increase to 84%. Given the magnitude of the US and Chinese economies, seeing the two countries enter a full-blown trade war would have significant, widespread implications for many US companies, up and down the capitalization spectrum.

Further, the increased uncertainty across a range of macroeconomic policies – trade as well as domestic spending and the administration's ongoing efforts to meaningfully shrink the size of the federal government – is prompting concerns about the consumer. Should tariffs prompt a significant spike in inflation and/or fiscal spending cuts go too far, consumers could rein in their spending. Indeed, companies across various sectors have noted a weakening consumer, suggesting the economy is slowing. With the consumer powering a significant majority of the economy, further weakening may present a risk to the lofty double-digit corporate earnings growth the market had been expecting for 2025.

However, regardless of how uncomfortable such volatility can be, we are simultaneously encouraged by its impact on the valuations of some companies that we believe are particularly strong and well-positioned to weather the environment ahead – even if it requires further suffering before economic and market growth resume. Accordingly, we have sought to be active in this period, identifying high-quality companies with particularly solid balance sheets whose outlook over the next three to five years is positive in our view. As downward volatility has continued, we have further acted on our research efforts to introduce these names to the portfolio, with the aim of positioning the portfolio well for whatever the environment gives us in the period ahead – whether there is further downside to endure, or whether markets turn around precipitously. We believe, with hindsight, that this period may prove to be one that separates those investors with a rigorous, bottom-up process from those unwilling or unable to see through the near-term volatility to the possibilities beyond.

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	1Q25	Expense Ratio (%)
Class I (DHLRX)	8.89	9.13	10.70	9.60	15.94	4.98	2.72	1.36	1.36	0.67
Russell 1000 Value Index	7.61	8.00	10.42	8.79	16.15	6.64	7.18	2.14	2.14	–
Russell 1000 Index	8.77	10.24	13.02	12.18	18.47	8.65	7.82	-4.49	-4.49	–

[Click here](#) for holdings as of 31 March 2025.

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

The views expressed are those of Diamond Hill as of 31 March 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](http://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](http://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](mailto: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](http://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**