DIAMOND HILL

INVESTED IN THE LONG RUN

International Fund

As of 31 Mar 2024

Market Commentary

Markets were mostly positive in Q1 2024, with the ongoing notable exceptions of Brazil and China, the latter of which remains in the red amid ongoing macroeconomic challenges. Global stocks rose roughly +8% in Q1 (as measured by the MSCI ACWI Index). US dollar-based returns were generally lower than local returns as the USD strengthened during the quarter relative to major global currencies. Developed markets outpaced emerging markets in Q1, rising just shy of +9% versus +2%, respectively.

Europe (+5%) and the Asia and Pacific regions (+5%) rose more moderately. In Europe, Denmark (+15%), the Netherlands (+15%) and Italy (+14%) had particularly solid first quarters, while major economies like Germany (+7%), France (+6%) and the UK (+3%) notched more modest gains. In the Asia and Pacific region, Taiwan led the way, rising +12%, while Japan was up +11%. As noted, China was in the red, down more than -2%, while Hong Kong fell nearly -12%. Returns were widely dispersed across the Latin America region (-4%), with Brazil down -7% and Mexico up a modest +0.5%. The Middle East, part of which remains an active war zone as Israel and Hamas continue fighting, was still up moderately, +2%, with Israel up (+12%), as well as Kuwait (+8%) and Saudi Arabia (+5%).

As has been the case in recent quarters, market-related headlines in Q1 seemed to focus narrowly on global monetary policy and its future direction — though the degree to which monetary policy is the dominant influencer of markets' direction may finally be diminishing. Investors may be increasingly convinced central bank heads have achieved the proverbial soft landing, with economic data remaining relatively robust even as inflation data moderate more slowly. Only time will tell.

Team

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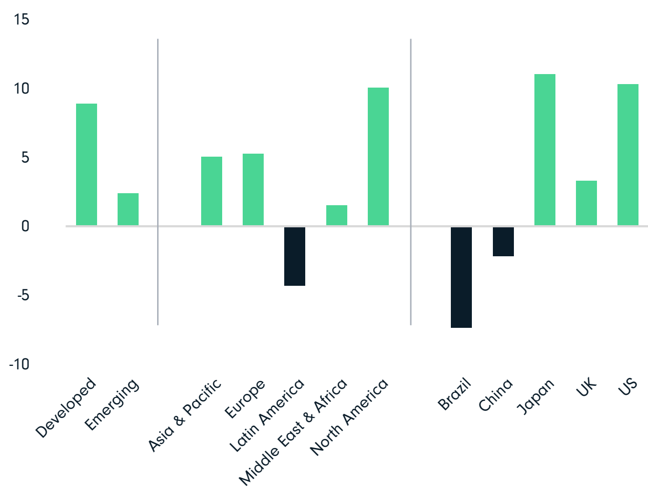
Of note on the monetary policy front was the long-awaited conclusion of Japan's ultra-loose monetary policy. After decades of deflation, Japan's economy is showing signs of mild inflation in the form of higher wages — which presumably lent the Bank of Japan (BOJ) confidence in its decision to end its ultra-loose policy regime. Accordingly, the BOJ made several noteworthy shifts, including raising its benchmark interest rate from -0.1% to +0.1%, ending its yield curve control policy (whereby it capped the 10-year Japanese government bond yield) and ending government purchases of exchange-traded funds and Japanese real estate investment trusts. However, it will continue purchasing roughly $40 billion monthly of Japanese government bonds — so there certainly is still room for monetary policy to tighten in the period ahead, should the inflationary and economic environment remain on their current paths.

Another closely watched country is China. Its economy has been sluggish over the last year or so as the government struggles to lift it out of the malaise that started amid the pandemic and accompanying lockdowns. The backdrop has been challenging: the real estate sector remains in crisis, foreign direct investment has plummeted and the country faces the prospect of trade wars with the US and Europe. Though government leadership is targeting 5% GDP growth in 2024, it remains to be seen whether they will be able to effect sufficient economic activity to hit their goal.

The calendar year began with a similar narrow focus on monetary policy, which has prevailed over the past several quarters. Now, one quarter into 2024, it seems as though investors may finally be shifting their focus. Whether this proves beneficial for markets — or certain sectors of markets — will play out over the course of the year and beyond. We will maintain our rigorous adherence to our bottom-up, fundamental research process that aims to identify compelling investing opportunities trading at reasonable discounts.

Exhibit 1 – 1Q24 Total Returns for Major Markets (USD) (%)



Source: FactSet, as of 31 Mar 2024.

Performance Discussion

Our portfolio outperformed the MSCI ACWI ex-USA Index in Q1. Relative strength was tied primarily to our Canadian holdings. We also had positive contributors from Belgium, Finland and Japan. Conversely, our Indian and Swiss holdings posed relative performance headwinds in Q1. From a sector perspective, our energy, communication services and industrials holdings were sources of relative strength, while our consumer discretionary holdings posed a relative headwind. Our technology holdings, while positive on an absolute basis, trailed benchmark peers, hampering relative returns.

On an individual holdings basis, our top contributors in Q1 included Mitsubishi Corporation and Safran. Japanese trading house Mitsubishi announced a 500 billion yen share buyback in Q1, which highlights the company's ongoing improvements in capital allocation and its growing willingness to share profits with shareholders. As corporate governance improves broadly in Japan, investors are inclined to reward companies willing to divest non-core businesses and make better use of cash. We further maintain our conviction in the company's attractive conglomerate structure, which includes a healthy mix of businesses.

French aerospace and defense company Safran is benefiting from its joint venture with General Electric for narrow-body leading-edge aviation propulsion (LEAP) engines as chief competitor Pratt and Whitney struggles with sustained issues. The joint venture has a majority of the market share in narrow-body engines, and there's evidence pricing power is strong in the engine duopoly.

Other top contributors included Spotify, Taiwan Semiconductor (TSMC) and UCB. Swedish digital music-streaming services provider Spotify is executing well on its monetization strategy, delivering results that increasingly confirm the company's ability to scale its business. Though the share price has effectively closed our estimate of its valuation gap, we believe there remains compelling upside from here, given the company's potential to capitalize on new revenue drivers in the period ahead. Shares of semiconductor manufacturer TSMC rose amid ongoing strong demand for semiconductors as machine learning and cloud computing continue gaining traction. Belgium-based biopharmaceuticals company UCB benefited from a strong drug launch in the quarter.

Among our bottom Q1 contributors were HDFC Bank and Vitesco Technologies. Indian bank HDFC Bank reported weak deposit growth in the quarter, which will likely pose a near-term headwind. However, over the long term, we believe HDFC Bank will capitalize on its meaningful competitive advantages, which we believe are not yet reflected in the share price.

Shares of Germany-based components and systems supplier to the automobile powertrains market Vitesco Technologies were pressured in the quarter as it announced a lower-than-expected conversion ratio in its ongoing merger with Schaeffler.

Other bottom Q1 contributors included Swatch Group, Aurinia Pharmaceuticals and Roche. Shares of Swiss watch manufacturer Swatch were pressured as investors increasingly weigh the possibility global luxury demand is moderating. Shares of Canadian biopharmaceutical company Aurinia Pharmaceuticals have been pressured as investors have expected it to be bought out — a development that has yet to transpire. Despite Roche's full-year performance surpassing expectations, its share price faced downward pressure in Q1. The market seems to have shelved its optimism, tagging Roche as a post-growth entity grappling with a pipeline perceived as underwhelming and productivity that doesn't quite hit the mark. This sentiment has overshadowed the company's recent achievements, leading to a decline in share value. However, we believe this harsh judgment may be premature. A closer inspection reveals potential in its pipeline that we believe the market has yet to fully appreciate.

Portfolio Activity

Though valuations continue rising, we have still been able to find high-quality companies trading at what we believe are interesting valuations. Accordingly, we introduced several new positions in Q1, including Evotec, Julius Baer Gruppe, Mitsubishi Shokuhin and Sandoz Group. Germany-based Evotec is a highly attractive contract manufacturing company. Given the potential for near-term trade barriers to increase, we believe demand for the company's products should grow. We consequently capitalized on an attractive valuation to introduce a position in the quarter.

Julius Baer is a Swiss pure-play wealth manager and private bank with a global footprint and attractive scale advantages. Its capital-light business model allows it to generate high returns on regulatory capital. Given its ability to generate high profits, it is able to accumulate excess capital to use for bolt-on acquisitions and/or return to shareholders via regular progressive dividends and share repurchases. Shares have recently been pressured amid one-off credit-quality concerns, giving us an opportunity to initiate a position in Q1.

Mitsubishi Shokuhin is a food distributor in Japan with a stable and improving business. We like the new outside executive, who has already completed a share repurchase, introduced a new compensation plan focused on return on equity, and continued increasing the dividend, in addition to eliminating unprofitable transactions. Given the business's decent quality, we believe the current valuation fails to reflect many of these positives.

Sandoz is a high-quality, Switzerland-based pharmaceutical company that is attractively positioned to capitalize on biosimilar opportunities and a recovery in the US market.

We funded these new purchases in part with the proceeds from our sales of Polish supermarket operator Dino Polska and Japanese pharmaceuticals company Shionogi & Co, both of which had reached our estimates of intrinsic value. We also exited our position in China-based burial and funeral services provider Fu Shou Yuan International Group in favor of more attractive opportunities.

Market Outlook

As 2024 began, we noted the significant opacity in markets — an environment that contributed to our enthusiasm as it offers an opportunity for well-equipped stock-pickers to identify high-quality investing opportunities most investors (particularly passive ones) miss. Questions about Chinese consumers, the Chinese real estate sector and the government's likely responses to these ongoing challenges remain. So do some questions in Japan and across Europe. Meanwhile, geopolitical tensions continue apace, particularly between Russia and Ukraine and between Israel and Hamas.

Add to these uncertainties the fact that 2024 is an election year in the US — which, though undoubtedly a domestic event, is likely to have global ramifications — and the questions seemingly continue to easily outnumber the answers. Such is always the case, though — which is good news for long-term-oriented investors who can capitalize on short-term market volatility to identify compelling opportunities trading at interesting valuations. International investors who can travel extensively are only better positioned as they gain opportunities to learn up close and in local contexts about companies that otherwise might fly under most non-US investors' radars. As a result, we remain optimistic about the rest of 2024 and, though we will always remain vigilant when investing, are simultaneously prepared to capitalize on the opportunities that unfold as global events develop.

Period and Annualized Total Returns (%)	Since Inception (30 Dec 2016)	5Y	3Y	1Y	YTD	1Q24	Expense Ratio (%)
Class I (DHIIX)	9.11	7.97	4.52	14.53	6.05	6.05	0.85
MSCI ACWI ex USA Index	6.78	5.97	1.94	13.26	4.69	4.69	–

Click here for holdings as of 31 March 2024.

Risk disclosure: International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods, tax policies, political systems and higher transaction costs. These risks are typically greater in emerging markets. 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 31 March 2024 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.

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.

The quoted performance for the Fund reflects the past performance of Diamond Hill International Fund L.P. (the "International Partnership"), a private fund managed with full investment authority by the fund's Adviser. The Fund is managed in all material respects in a manner equivalent to the management of the predecessor unregistered fund. The performance of the International Partnership has been restated to reflect the net expenses and maximum applicable sales charge of the fund for its initial years of investment operations. The International Partnership was not registered under the Investment Company Act of 1940 and therefore was not subject to certain investment restrictions imposed by the 1940 Act. If the International Partnership had been registered under the 1940 Act, its performance may have been adversely affected. Performance is measured from 30 December 2016, the inception of the International Partnership and is not the performance of the fund. The assets of the International Partnership were converted, based on their value on 28 June 2019, into assets of the fund. The International Partnership's past performance is not necessarily an indication of how the fund will perform in the future either before or after taxes.

Fund holdings subject to change without notice.

Index data source: MSCI, Inc. 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