Diamond Hill International Strategy

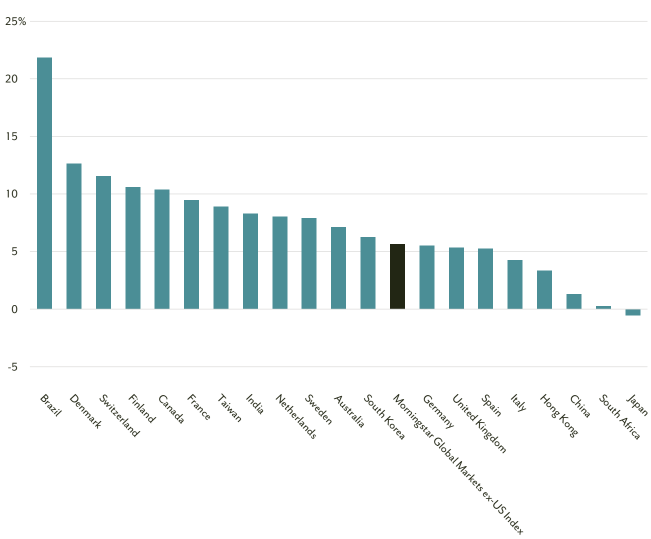
As of June 30, 2021

Market Commentary

International equity markets moved higher in Q2, closing out the first half of the year with mid-single digit gains as the economic recovery progressed in fits and starts. Vaccination rates globally continued to rise—albeit at a slower pace—though certain countries continued to struggle with COVID-19 and the pervasive Delta variant. Stocks in Brazil were clear winners this quarter, advancing more than 21% on economic growth prospects. We also saw strong equity gains in Russia, Denmark and Switzerland. Japanese stocks ended the quarter in negative territory, as did those in Thailand, Indonesia and Malaysia.

All sectors in the Morningstar Global Markets ex-U.S. Index advanced in Q2, with particular strength in the health care and energy sectors, which posted 9.7% and 8.5% gains, respectively. Global technology stocks advanced on the back of higher economic growth prospects, as did energy stocks which were also boosted by expectations of rising inflation. Relative laggards this quarter included the utilities and communication services sectors, which advanced 0.9% and 1.5%, respectively.

MORNINGSTAR GLOBAL MARKETS EX-U.S. INDEX—2Q21



Source: FactSet, as of 6/30/2021. The chart above includes the top 20 countries by weight in the Index and is sorted by total return.

TEAM

Grady Burkett, CFA Portfolio Manager	**Krishna Mohanraj, CFA** Portfolio Manager

Performance Discussion

In Q2, the portfolio outpaced the Morningstar Global Markets ex-U.S. Index. We benefited from positive stock selection in Japan, Canada and the U.K., while our stocks in India and China underperformed. From a sector perspective, strong stock selection in the technology, communication services and consumer sectors aided relative results. Our health care and industrials holdings also performed well. Partially offsetting those positives was the underperformance of our financials and materials holdings.

On an individual holdings basis, top contributors to return included U.S. enterprise communications software company BlackBerry, U.K. telecommunications services provider BT Group and Switzerland-based jewelry company Richemont. Blackberry's stock got swept up in another spike in retail trading in Q2 (for more detail, check out our latest blog "Value Investing in a World of Meme Stocks and #YOLO"). Given our conviction in our long-term valuation assumptions under multiple scenarios, we were able to trade around this latest bout of volatility, using the current market price to our advantage.

BT Group is Britain's largest broadband and mobile operator. Its share price was boosted during the quarter after holding company Altice UK bought a 12.1% stake in the company. Altice UK was formed by telecom billionaire Patrick Drahi to hold the BT stake due to their favorable outlook on the company.

Richemont has benefited from strong topline sales within its jewelry segment, as well as from the ongoing recovery of its specialist watchmaker and online distributors businesses. This coupled with operating margin expansion, robust free cash flow generation and a net cash position give us continued confidence in the long-term prospects of Richemont's business.

Other top contributors in the quarter included U.S. search engine Alphabet (Google's parent company) and U.K.-based alcoholic beverage company Diageo. Alphabet performed well as the company reported strong operating results, and Diageo preannounced strong revenue and operating profit growth as its markets recover from the pandemic.

DIAMOND HILL CAPITAL MANAGEMENT

The portfolio's largest detractors included Thai banking and financial services company Kasikornbank and Prosus, the international internet assets division of South African multinational holding company Naspers. As previously mentioned, stocks in Thailand struggled during the quarter, declining -3%, as the country’s economic reopening was delayed by a third wave of COVID-19. Kasikornbank was not immune to generally pessimistic market sentiment. We continue to like Kasikornbank over the long term and believe that further improvement in asset quality will prove to be a tailwind as the country emerges from the pandemic. Prosus shares declined in tandem with shares of its largest investment, Tencent, which was subject to more regulatory scrutiny along with the rest of the Chinese internet sector.

Other bottom contributors in the quarter, which posted modest share price declines, included Indian banking and financial services company HDFC Bank, U.S. diversified media and entertainment company Walt Disney and U.K. insurance company Beazley. Our long-term fundamental outlook on these companies remains unchanged.

Portfolio Activity

We initiated two new positions in Q2—Zynga and Credicorp. Zynga is a mobile game developer with popular social games such as Words With Friends and FarmVille. The company is investing significantly in new game launches that we expect should materialize into real cash flow this year and next. Its business model is light on operating expenditures (outside of marketing new games), and they have net cash on the balance sheet. We also like the stickiness of Zynga’s loyal customer base. We believe the combination of its strong content, go-to-market capabilities, scale and secular tailwinds will drive intrinsic value growth over the long term.

Credicorp is Peru's largest bank by market share with dominant positions in banking, microlending, insurance and asset management. We were able to invest at an attractive valuation after the stock was negatively impacted in Q2 by political uncertainty and the presidential election outcome.

We sold U.S. medical device company LivaNova as its shares hit our estimate of intrinsic value. We also sold Alphabet and Mexican airport operator Grupo Aeroportuario del Sureste in favor of more attractive opportunities.

Market Outlook

Global economic growth is expected to be driven by continued vaccination and reopening progress. We are seeing differing recovery scenarios across the globe. Some countries are still battling COVID-19 (and variants) with various lockdown measures (e.g., Japan remains in lockdown through mid-August, dashing the hopes of Olympic spectators who will not be allowed in stadiums), while others are slowly reopening their economies as vaccination progress has slowed the spread of the virus.

While concerns exist in certain countries that haven’t been able to contain the virus as effectively as others, we believe the global recovery could continue for a considerable period as we are still in the early innings. Many economic sectors are in recovery mode as pent-up demand is unleashed. That said, some industries may take years to return to prior levels.

Inflation concerns in the U.S. have the potential to hamper international markets as U.S. demand drives economic growth in countries all over the world. Rate hikes are now expected to occur in 2023 rather than 2024, but continued economic strength, federal stimulus, wage growth and supply/demand tightness could alter that course and force the Fed to pull the timeframe forward. Rising inflation and the higher interest rates that may come with it could be a headwind for equity markets and are risks we are monitoring closely.

International equity markets seem to fully reflect the economic progress but remain more attractive on a relative basis than those in the U.S., providing international investors a more opportunistic pond to fish in for new investment ideas. 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.

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As of June 30, 2021

PERIOD AND ANNUALIZED TOTAL RETURNS

Inception Date: December 31, 2016

	SINCE INCEPTION	3-YR	1-YR	YTD	2Q21
INTERNATIONAL COMPOSITE					
Gross of Fees	14.72	12.07	47.28	15.37	7.60
Net of Fees	14.40	11.59	46.35	15.01	7.43
BENCHMARK					
Morningstar Global Markets ex-U.S. Index	11.23	9.56	36.67	9.27	5.49

CALENDAR YEAR RETURNS (%)

	2017	2018	2019	2020
INTERNATIONAL COMPOSITE				
Gross of Fees	32.22	-9.62	24.95	7.64
Net of Fees	32.22	-9.62	24.55	6.94
BENCHMARK				
Morningstar Global Markets ex-U.S. Index	27.37	-14.17	21.57	11.17

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AS OF YEAR-END	DHCM	INTERNATIONAL COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)	
	Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	International Composite	Morningstar Global Markets ex-U.S. Index
2020	$26.4B	5 or fewer	$16.9M	NA[1]	19.50%	18.11%
2019	23.4B	5 or fewer	13.5M	NA[1]	12.07	11.15
2018	19.1B	5 or fewer	3.5M	NA[1]	NA[2]	NA[2]
2017	22.3B	5 or fewer	4.0M	NA[1]	NA[2]	NA[2]

[1] NA = Not Applicable

[2] Statistics are not presented because 36 monthly returns are not available.

This composite was created in July 2019.

The views expressed are those of Diamond Hill as of June 30, 2021 and are subject to change. It should not be assumed that an investment in the securities identified was or will be profitable. The holdings identified do not represent all of the securities purchased, sold, or recommended for the adviser's clients. To obtain the contribution calculation methodology and a complete list of every holding's contribution to the overall portfolio's performance during the measurement period, please contact 855.255.8955 or info@diamond-hill.com. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice.

Global Investment Performance Standards