# Diamond Hill Global Strategy

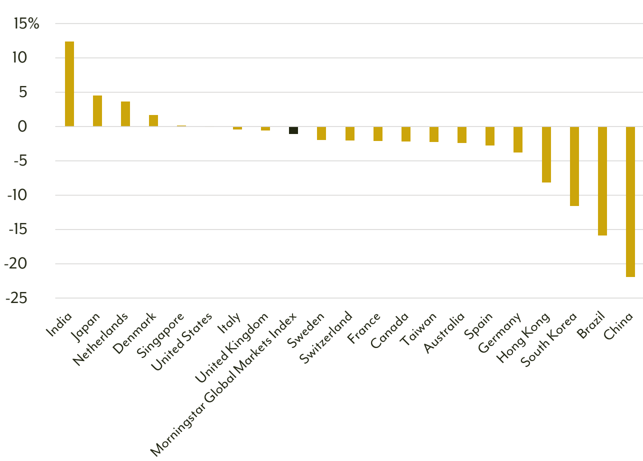
As of September 30, 2021

## Market Commentary

Global equity markets ended the third quarter mixed, as investor concerns about global economic growth mounted due to the delta-variant resurgence in COVID-19 cases, rising inflation and supply chain disruptions. Stocks in India, Japan and the Netherlands advanced, while Chinese equities declined more than 20% over worries about the debt-laden property developer China Evergrande Group. Stocks in Brazil fell more than 15% as inflation continued to rise and the central bank raised interest rates by 100 basis points—its fourth rate hike this year.

Only three sectors in the Morningstar Global Markets Index advanced in Q3—the energy sector gained 3.3% on the heels of increasing demand for natural gas, while the financials and technology sectors returned 2.2% and 0.6%, respectively. Consumer discretionary stocks fared the worst during the quarter (down over -5%) as the delta variant hampered economic recoveries globally and stifled consumer confidence. Other laggards this quarter included the materials sector, which declined more than -4%, and the communication services sector, which fell -2.9%.

### MORNINGSTAR GLOBAL MARKETS INDEX—3Q21




Source: FactSet, as of 9/30/2021. 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


## Performance Discussion

In Q3, the portfolio trailed the Morningstar Global Markets Index, largely due to the underperformance of our stocks in the U.K., U.S. and Japan. On the positive side, we benefited from our lack of exposure to Brazil and from good relative performance of our lone holding in Mexico. From a sector perspective, our holdings in the consumer discretionary, communication services and financials sectors underperformed. Helping offset some of those headwinds was positive stock selection in the materials sector.

On an individual holdings' basis, top contributors to return included U.S. search engine Alphabet (Google's parent company) and U.S. online travel services provider Booking Holdings. Alphabet is a dominant internet advertising provider, and its management team is allocating capital to increase and defend its competitive advantages. We expect Google search and YouTube advertising—as well as the company's other initiatives around machine learning and cloud—to continue driving profitable revenue growth. While travel continues to be impacted by the COVID-19 pandemic, Booking has improved its market share in the U.S. and is poised to grow profitably when global travel recovers more fully.

Other top contributors in Q3 included U.S. software and IT services provider Microsoft, Japanese telecom services provider KDDI Corporation and U.S. consumer products manufacturer Procter & Gamble.

The portfolio's largest detractors included Chinese technology company Alibaba Group, Swiss watch and jewelry maker Swatch Group and U.S. mobile game developer Zynga. China's ongoing crackdown of top technology companies and increased regulatory scrutiny have created an overhang on Alibaba's share price this year, while Swatch's stock price underperformed despite a strong snapback in operating results. We continue to like the durability and pricing power of Swatch's higher-end brands, as well as its solid balance sheet.

Zynga's share price was hampered due to two recent headwinds. First, the company has experienced higher than expected churn on recently acquired users. Second, Apple's new privacy policies have meaningfully disrupted the marketing channels Zynga uses to acquire new users. We believe Zynga is well positioned to emerge from these issues if they prove transitory, but we are closely following its progress on both fronts.

DIAMOND HILL CAPITAL MANAGEMENT



Please see GIPS report in the appendix.

Other bottom contributors in the quarter were U.K.-based emerging markets asset manager Ashmore Group and Canadian telecom services provider Rogers Communications. Ashmore's shares underperformed despite Q2 net inflows and good historical investment performance. The firm maintains a solid balance sheet while returning capital at a steady rate. We continue to believe shares are significantly undervalued. Rogers' stock underperformed despite solid Q2 operating results. The sudden departure of the firm's long-time CFO was unexpected but unlikely to portend a change in the company's long-term fundamentals. Management expects its acquisition of rival Shaw Communications to close next year, which we believe will be accretive over the long run.

## Portfolio Activity

Activity in Q3 was limited as valuations continue to be on the higher end of fair, making it more challenging to find quality businesses trading at a discount to our intrinsic value estimates. We initiated a new position in Freeport-McMoRan, a copper-focused mining company with high-quality assets globally. As global demand for electrification and construction increases, the supply of new copper-producing projects has lagged. This supply-demand dynamic has created an attractive opportunity to invest in a strong business that is oriented toward strengthening end markets.

We also reinvested in former holding Fuchs Petrolub, a German specialty lubricants producer, which we previously sold in Q4 2020 as its share price reached our intrinsic value (IV) estimate. Recent share price weakness brought Fuchs' valuation back down to an attractive discount. Fuchs is a well-run business that generates high returns on capital and maintains a solid balance sheet. We believe Fuchs has solid growth prospects in the U.S. and Asia Pacific. To help fund these purchases, we sold U.K.-based IT services provider Sage Group.

## Market Outlook

Vaccination progress globally has allowed economies to reopen, leading to a sharp economic recovery. While we expect the recovery will continue into 2022, an uptick in coronavirus cases, supply chain issues and higher input costs may slow the earnings recovery for many businesses around the world. In some areas, price increases due to short-term supply/demand imbalances may eventually prove transitory, while others may persist for a longer period. To the extent this is sustained, rising inflation and higher interest rates 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.

## PERIOD AND ANNUALIZED TOTAL RETURNS (%)

Inception Date: December 31, 2013

| | SINCE INCEPTION | 5-YR | 3-YR | 1-YR | YTD | 3Q21 |
|---|---|---|---|---|---|---|
| GLOBAL COMPOSITE | | | | | | |
| **Gross of Fees** | 7.68 | 11.03 | 6.38 | 25.84 | 5.83 | -5.29 |
| **Net of Fees** | 7.33 | 10.48 | 5.68 | 25.04 | 5.31 | -5.45 |
| BENCHMARK | | | | | | |
| **Morningstar Global Markets Index** | 9.39 | 12.98 | 12.29 | 28.27 | 11.06 | -1.07 |

## CALENDAR YEAR RETURNS (%)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|
| GLOBAL COMPOSITE | | | | | | | |
| **Gross of Fees** | 3.69 | -4.58 | 11.42 | 30.84 | -13.90 | 31.57 | 2.60 |
| **Net of Fees** | 3.69 | -4.58 | 11.42 | 30.84 | -14.51 | 30.73 | 1.93 |
| BENCHMARK | | | | | | | |
| **Morningstar Global Markets Index** | 4.00 | -2.04 | 8.22 | 23.87 | -9.82 | 26.24 | 16.07 |

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| AS OF YEAR-END | DHCM | GLOBAL COMPOSITE | | | 3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES) | |
|---|---|---|---|---|---|---|
| | Assets Under Management | Number of Accounts | Assets Under Management | Dispersion (Gross of Fees) | Global Composite | Morningstar Global Markets Index |
| **2020** | $26.4B | 5 or fewer | $16.2M | NA[1] | 23.55% | 18.41% |
| **2019** | 23.4B | 5 or fewer | 21.9M | NA[1] | 14.75 | 11.20 |
| **2018** | 19.1B | 5 or fewer | 14.7M | NA[1] | 12.62 | 10.55 |
| **2017** | 22.3B | 5 or fewer | 2.2M | NA[1] | 11.56 | 10.26 |
| **2016** | 19.4B | 5 or fewer | 1.7M | NA[1] | 11.66 | 10.98 |
| **2015** | 16.8B | 5 or fewer | 1.5M | NA[1] | NA[2] | NA[2] |
| **2014** | 15.7B | 5 or fewer | 1.6M | 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 January 2018.

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Global Investment Performance Standards