Diamond Hill International Strategy

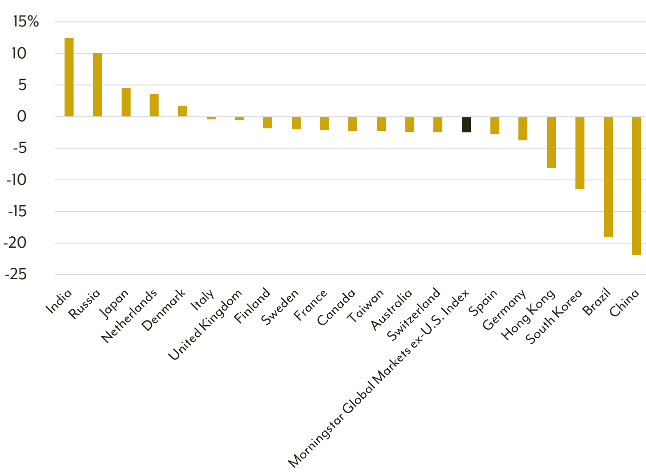
As of September 30, 2021

Market Commentary

Non-U.S. 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, Russia and Japan advanced, while Chinese equities declined more than 20% over worries about the debt-laden property developer China Evergrande Group. Stocks in Brazil fell nearly 20% 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 ex-U.S. Index advanced in Q3—the energy sector gained 6.9% on the heels of increasing demand for natural gas, while the financials and industrials sectors returned 1.6% and 0.9%, respectively. Consumer discretionary stocks fared the worst during the quarter (down over -11%) as the delta variant hampered economic recoveries globally and stifled consumer confidence. Other laggards this quarter included the communication services sector, which declined more than -9%, and the materials sector, which fell -4.5%.

MORNINGSTAR GLOBAL MARKETS EX-U.S. INDEX—3Q21



Source: FactSet, as of 9/30/2021. The chart includes the Top 20 countries by weight in the Index and is sorted by total return.

TEAM

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

Performance Discussion

In Q3, the portfolio trailed the Morningstar Global Markets ex-U.S. Index, largely due to the underperformance of our stocks in Japan, Switzerland and the Netherlands. On the positive side, we benefited from the relative strength of our holdings in France and Canada, as well as our slight underweights to China and Brazil. From a sector perspective, our outsized exposure to the communication services sector and underperformance of our stocks in the technology and consumer discretionary sectors weighed on relative results. Helping offset some of that was positive stock selection in the health care sector and strength of our lone real estate holding.

On an individual holdings' basis, top contributors to return included two biopharmaceutical companies—Aurinia Pharmaceuticals and Shionogi & Co—as well as French media company Vivendi. Canada-based Aurinia has benefited from increasing adoption of its drug LupkynisTM, a prescription medicine used to help treat active lupus nephritis. Insurance coverage of the drug has risen, and long-term safety and efficacy indications are strong. Japanese drugmaker Shionogi's shares were boosted in Q3 as the company makes progress on human trials of an oral pill designed to attack the COVID-19 virus.

Vivendi, the French media group, recently spun off music label Universal Music Group, which now trades on the Euronext stock exchange. Vivendi received shareholder approval in June to spin off the music label, allowing the company to focus on its other media assets.

Other top contributors in Q3 included U.K. insurance company Beazley and Howden Joinery Group, a U.K.-based manufacturer and supplier of fitted kitchens, appliances and joinery products.

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.

DIAMOND HILL CAPITAL MANAGEMENT

Please see GIPS report in the appendix.

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.

Other bottom contributors in the quarter were beverage company Anheuser-Busch InBev (AB InBev) and telecom services provider BT Group. AB InBev continues to experience margin pressure from rising input costs, especially in the U.S. market. We expect these issues to persist for some time and decided to exit our position in favor of more attractive opportunities. BT's shares slumped after competitor Virgin Media announced its plans to upgrade and potentially provide wholesale access to its network. Despite the near-term headwinds, our long-term fundamental outlook remains unchanged.

Portfolio Activity

In Q3, in addition to AB InBev, we exited our positions in Swiss private bank Julius Baer Gruppe and Belgian self-storage facilities operator Shurgard Self Storage as their share prices reached our intrinsic value estimates.

One new addition to the portfolio was 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 initiated a position in Spotify Technology—a unique network effect business with a long runway for growth. While Spotify's streaming music service is its most familiar asset, the company also boasts an online audio network and a two-sided marketplace platform with a dominant and quickly expanding scale advantage. Importantly, growth is 100% self-funded with internally generated cash flow, allowing Spotify to avoid the strain of relying on capital markets to fund growth like other early-stage growth companies. From a valuation perspective, Spotify's stock currently trades at an attractive level largely because the market has yet to recognize it as a compounding network effect platform business. We believe there is substantial upside under normal operating conditions, as Spotify gradually shifts from growth to monetization over time.

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, 2016

	SINCE INCEPTION	3-YR	1-YR	YTD	3Q21
INTERNATIONAL COMPOSITE					
Gross of Fees	12.35	8.84	32.93	8.15	-6.26
Net of Fees	12.01	8.31	32.09	7.62	-6.42
BENCHMARK					
Morningstar Global Markets ex-U.S. Index	10.05	8.43	25.11	6.67	-2.38

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 September 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