International Strategy

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DIAMOND HILL
A First Eagle Investments Company

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Quarterly Snapshot

Performance

The Strategy returned 3.52% (net of fees) and the MSCI ACWI ex USA Index declined 0.71%.

Key Drivers

Stock selection in information technology and materials, along with both an overweight position and stock selection in energy, contributed to performance. Health care and industrials were the largest detractors.

Summary

The portfolio outperformed during the quarter, driven by strength in several artificial intelligence (AI)-related holdings and in positions exposed to higher energy prices. Market volatility and geopolitical uncertainty remain elevated, and we continue to look for opportunities where market prices diverge meaningfully from our estimates of intrinsic value.

Market and portfolio review

- Japanese equities were slightly positive, supported by a weaker yen, expectations for fiscal support and continued corporate governance reform. Those gains were partly offset by persistent inflation and tighter monetary policy expectations.

- European equities declined overall, led lower by Germany and France as investors weighed sluggish growth, trade uncertainty and higher energy prices. The UK was a relative bright spot, helped by its commodity exposure and more defensive market mix.

- Emerging markets were mixed but roughly flat overall (-0.30%), as strong gains in Brazil, South Korea, Taiwan and Mexico were offset by weakness in China and India. Brazil benefited from higher commodity prices, while South Korea and Taiwan were supported by AI-related semiconductor demand.

- Energy was the strongest sector, rising sharply as conflict in Iran and disruption in the Strait of Hormuz pushed oil prices higher. The move underscored how quickly geopolitical shocks can affect international markets.

- Information technology was positive overall, but returns were uneven. Semiconductor companies tied to the AI supply chain outperformed, while software and IT services lagged as market performance remained concentrated in hardware and infrastructure-linked areas of the sector.

- Consumer discretionary was the weakest sector, pressured by higher energy prices, tariff-related cost pressures and softer consumer demand, with weakness most evident in autos, retail and travel-related stocks.

Recent market disruption has created both risks and opportunities. We believe the combination of rapid AI-related change and elevated geopolitical uncertainty is increasing dispersion across regions, sectors and companies, creating a favorable backdrop for active management. We remain focused on long-term fundamentals and on identifying businesses whose share prices have diverged materially from intrinsic value, while maintaining discipline in areas where uncertainty is high or valuations do not adequately reflect risk.

Key contributors

- **Samsung Electronics**, a South Korean memory chip manufacturer, benefited from continued strength in memory demand, which supported pricing and margin trends. The company also remains well positioned to benefit from spending tied to AI-related infrastructure.

- **Canadian Natural Resources**, one of Canada’s largest independent energy companies, benefited from higher oil prices later in the quarter. Shares were also supported by continued cost discipline and thoughtful capital allocation.

- **Imperial Oil**, a Canadian integrated energy company, performed well as higher oil prices supported the stock, particularly toward quarter-end. Shares also performed well earlier in the period, reflecting steady execution and disciplined management.

Key detractors

- **HDFC Bank**, a retail-focused private bank in India, underperformed amid concerns about the effect of higher oil prices on the Indian economy and following the sudden resignation of its chairman.
- **Compagnie Financière Richemont**, the Swiss luxury goods company behind brands such as Cartier, Van Cleef & Arpels and Piaget, underperformed as heightened uncertainty in the Middle East weighed on luxury goods stocks.
- **Tencent**, one of China's leading internet and technology companies, underperformed as investors questioned the near-term return on its rising AI investments. Shares weakened after the company signaled meaningfully higher AI spending without providing a clear timeline for monetization, raising concerns about margin pressure.

New positions

- **Diageo**, a global beverage alcohol company with leading brands across spirits and beer, reported weak recent results as North America and China reflected a more cautious consumer environment and pressure at higher price points. We initiated a position after management reset near-term expectations, including reducing the dividend to support reinvestment and balance sheet improvement. We continue to see a high-quality business with strong brands and global reach.
- **Samsung C&T**, which owns stakes in Samsung Electronics, Samsung Biologics and other operating businesses, offers a diversified way to participate in the value of the broader Samsung Group. We believe the company is becoming more shareholder friendly in its capital allocation, has scope for dividend growth and provides exposure to the fast-growing bioprocessing industry through Samsung Biologics.
- **SWCC**, a Japanese industrial company, is positioned to benefit from stronger domestic power and utility demand as well as secular growth tied to AI, robotics and related infrastructure. We were also attracted to management's focus on return on invested capital, portfolio improvement and a corporate culture that appears more shareholder- and employee-oriented than is typical in Japan.
- **Rentokil Initial**, a global pest control company, became attractive after integration missteps following the Terminix acquisition weighed on sales execution and organic growth. We believe the company remains a high-quality business with resilient demand and a long runway for growth, and recent improvement suggests the worst of the integration challenges may be behind it.
- **Hikari Tsushin**, a Japanese company serving small- and mid-size businesses through telecom, utility and other recurring-service contracts, combines a cash-generative operating business with a sizable portfolio of listed equity investments. We believe the value of its holdings, management's capital allocation and the earnings power of its operating businesses are not reflected in the current share price.

Eliminated positions

- **ICON**, a global contract research organization serving pharmaceutical, biotechnology and medical device companies, was sold to realize tax losses.
- **Beazley**, a UK-based specialist insurer, was sold after Zurich Insurance proposed to acquire the company at a price above our estimate of intrinsic value.
- **Allfunds**, Europe's largest cross-border fund distribution platform, was sold after the stock appreciated close to Deutsche Börse's offer price, leaving limited upside relative to the remaining regulatory-approval risk.
- **Magnum Ice Cream**, which we received through the Unilever spinoff, was exited because we did not find the business attractive at the current share price.
- **EXOR**, a diversified European holding company, was sold in favor of what we viewed as better opportunities elsewhere in the portfolio.

Period and Annualized Total Returns (%)

	Since Inception (31 Dec 2016)	5Y	3Y	1Y	YTD	1Q26
Gross of Fees	11.21	9.18	15.20	28.83	3.71	3.71
Net of Fees	10.38	8.36	14.34	27.87	3.52	3.52
MSCI ACWI ex USA Index	8.53	7.02	14.49	24.91	-0.71	-0.71

Calendar Year Returns (%)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross of Fees	32.22	-9.62	24.95	7.64	13.73	-12.76	19.18	4.81	29.38
Net of Fees	31.23	-10.30	24.01	6.83	12.87	-13.41	18.29	4.03	28.41
MSCI ACWI ex USA Index	27.19	-14.20	21.51	10.65	7.82	-16.00	15.62	5.53	32.39

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