

Market Commentary

Following a trying 2020, investors (and people in general) were hopeful that 2021 would bring better times. Thus far, we've seen continued distribution of COVID-19 vaccines globally, gradual steps to reopening economies and broad gains in major markets across the globe. Stocks in India and Russia advanced 7% in the first quarter, while equities in the U.K. and U.S. experienced 6% gains. In other regions, we saw stocks pull back, including in China and Brazil. Chinese stocks had momentum through the first half of the quarter but took a breather in the latter half on concerns of slowing earnings growth and expensive valuations, ending the quarter with a small loss. Brazilian stocks fell nearly 10% in the first quarter. Brazil's economic recovery following the pandemic has been tough, despite fiscal stimulus, as a resurgence in COVID-19 cases have plagued the country that has not imposed lockdowns or other restrictions.

In Q1, most sectors in the Morningstar Global Markets ex-US Index posted positive returns. High single-digit gains were seen in the market's more cyclical areas of energy and financials, on expectations that global economic growth and demand are picking up steam. On the other end of the spectrum were health care (-3.3%) consumer staples (-1.9%) and utilities (-0.6%) stocks. Global tech stocks advanced just 3% in the first quarter after robust 45% gains in 2020.

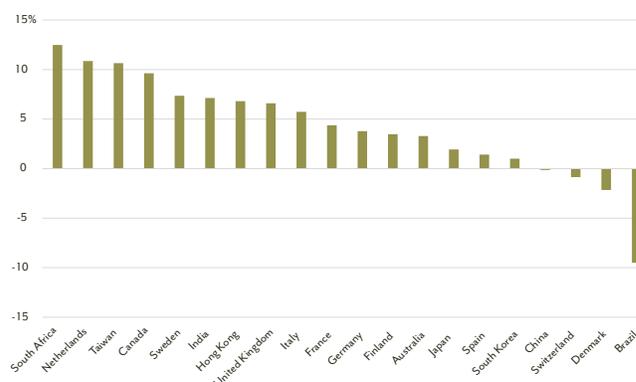
It's fascinating to note that over the past 12 months, which includes a once-in-a-hundred-years (hopefully) global pandemic, global stocks have advanced 54% (as measured by the MSCI All Country World Index). Those are incredible gains considering what we've been through over the past year. As valuation-disciplined investors, strong market advances like these make our job of finding stocks trading at discounts to their intrinsic value more challenging, but we continue to look for pockets of the market that are not being rewarded.

TEAM

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MORNINGSTAR GLOBAL MARKETS EX-U.S. INDEX—Q1 2021



Source: FactSet, as of 3/31/2021. The chart above includes the top 20 countries by weight in the Index and is sorted by total return.

Performance Discussion

In Q1, the portfolio outpaced the Morningstar Global Markets ex-U.S. Index. We benefited from positive stock selection in Canada, China and Switzerland, while our stocks in the U.K. and our lone holding in Germany (Fuchs Petrolub) underperformed. From a sector perspective, we benefited from strong stock selection in the technology sector. Our consumer discretionary and communication services holdings also performed well. Partially offsetting those positives was the underperformance of our materials and industrials holdings. Our outsized exposure to the consumer staples sector was also a headwind—staples have lagged cyclicals and areas viewed as more leveraged to an economic reopening post-pandemic.

On an individual holdings basis, top contributors to return included BlackBerry, Kasikornbank Public Co., and Fairfax Financial Holdings. Canadian information security services provider BlackBerry continues to execute on its new strategy set forth by the management team. We remain confident in the company's long-term growth opportunities though its valuation multiple is beginning to reflect these opportunities. Thai banking and financial services company Kasikornbank performed well in the quarter, benefiting from improving asset quality and increased optimism on the recovery of the Thai economy due to the vaccine rollout. Canadian property & casualty insurance company Fairfax Financial has benefited from improving investment returns in its equity portfolio. Other top contributors in the quarter included U.S. search engine leader Alphabet (a.k.a. Google) and U.K. telecommunications services provider BT Group.



The portfolio's largest detractors included the Check Point Software Technologies, Anheuser-Busch InBev and Fuchs Petrolub. Check Point Software Technologies is a leading provider of cyber security solutions to governments and corporate enterprises globally. Its share price declined this quarter after the company delivered disappointing earnings guidance due primarily to management's expectation for modest margin deterioration. Belgium-based brewing company AB-InBev underperformed due to concerns over margin pressure, while the share price of German lubricant manufacturer Fuchs Petrolub fell after management guided for operating profits to be flat in 2021. Other bottom contributors in the quarter included U.K.-based consumer goods manufacturer Unilever and Swiss health care products manufacturer Novartis. Our long-term fundamental outlook on these companies remains unchanged.

Portfolio Activity

We initiated new positions in Assa Abloy and doValue this quarter. Based in Sweden, Assa Abloy is a dominant leader in intelligent lock and security solutions. In our view, it is a high-quality business trading at a discount to our estimate of intrinsic value due to near-term concerns about the post-pandemic economic recovery. We believe Assa Abloy has a long runway for growth given industry consolidation and bolt-on acquisition opportunities. Its current installed base of users needing upgrades to digital and electromechanical locks also provides healthy organic growth opportunities as well as margin/return support.

Based in Italy, doValue is the largest independent servicer of non-performing loans in Southern Europe. The company's business is nicely diversified across geographies and clients and is well positioned to benefit from both organic and M&A growth opportunities. doValue is highly cash generative with little on-balance-sheet credit risk and has demonstrated resilient performance across economic cycles.

We exited our positions in Seven & I Holdings and B&M European Value Retail as they reached our intrinsic value estimates.

Market Outlook

After a historic slowdown in global GDP, economic activity has been rebounding—albeit, different parts of the globe are recovering at different paces. We expect the recovery to continue in 2021 as vaccines are distributed more broadly and restrictions on day-to-day life are eased.

Although equity markets have recently hit all-time highs and corporate earnings may soon do the same, the after-effects of COVID-19 will likely linger more acutely for certain industries. While certain businesses have seen unprecedented spikes in demand, others have seen the opposite and have had to borrow heavily to survive. We have been focused on how businesses have managed their balance sheets and liquidity situations through the crisis, and how long-term competitive positions may have been impacted.

With the distribution of multiple, highly efficacious vaccines progressing, it is expected that the spread of COVID-19 will continue to slow over the next several quarters. Despite the risk of new variants, equity markets seemingly reflect much of the economic recovery to come, with a forward P/E multiple at a historically elevated level. From current levels, equity market returns over the next five years are expected to be in the mid-single digit range.

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.

Diamond Hill International Fund Commentary

As of March 31, 2021

MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF MARCH 31, 2021

Alphabet, Inc. (CI A)	2.8%	doValue S.p.A	1.2%
Anheuser-Busch InBev S.A./N.V.	3.1	Fairfax Financial Holdings Ltd.	2.0
Assa Abloy AB (CI B)	0.0	Fuchs Petrolub SE	1.0
BlackBerry Ltd.	1.5	Kasikornbank Public Co. Ltd.	2.5
BT Group PLC	2.9	Novartis AG	1.9
Check Point Software Technologies Ltd.	2.7	Unilever N.V.	3.9

PERIOD AND ANNUALIZED TOTAL RETURNS AS OF MARCH 31, 2021

	SINCE INCEPTION (12/30/16)	3-YR	1-YR	YTD	1Q21	EXPENSE RATIO
INTERNATIONAL FUND						
Class I	12.47%	7.64%	54.86%	6.96%	6.96%	0.85%
BENCHMARK						
Morningstar Global Markets ex-U.S. Index	10.53	6.68	51.53	3.58	3.58	—

Risk Disclosure: The Fund invests in non-U.S. securities. Investing in non-U.S. securities may entail risk due to foreign economic and political developments; this risk may be higher when investing in emerging markets. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. There are specialized risks associated with small capitalization issues, such as market illiquidity and greater market volatility, than large capitalization issues.

The views expressed are those of the portfolio managers as of March 31, 2021, are subject to change and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice.

The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment 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 data quoted. Investors may obtain performance information current to the most recent month-end, within 7 business days, at diamond-hill.com.

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 December 30, 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 June 28, 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.

Performance returns assume reinvestment of all distributions. Returns for periods less than one year are not annualized.

Fund holdings subject to change without notice.

The Morningstar Global Markets ex-U.S. Index is a net total return index designed to provide exposure to the top 97% market capitalization in each of two economic segments, developed markets, excluding the United States, and emerging markets.

Index data source: Morningstar, Inc. See diamond-hill.com/disclosures for a full copy of the disclaimer.

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.

An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other important information about the Fund(s) can be found in the Fund's(s) prospectus or summary prospectus which can be obtained at diamond-hill.com or by calling 888.226.5595. Please read the prospectus or summary prospectus 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. Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.