Diamond Hill Long-Short Fund Commentary

As of March 31, 2021

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 U.S. stocks across sectors.

In Q1, all sectors in the Russell 1000® Index posted positive returns (for the second quarter in a row)—double-digit gains were seen in the market's more cyclical areas, including energy, financials and industrials, on expectations that U.S. economic growth and demand are picking up steam. On the other end of the spectrum were technology and consumer staples stocks. After 45% gains in 2020, tech stocks cooled off in Q1 with a gain of only 1.3%. Performance among mega-cap stocks varied as evidenced by the FAANG stocks, with Facebook up 7%, Amazon down 5%, Apple down 7%, Netflix down 3%, and Alphabet (Google) up 17%.

Small cap stocks were the winners this quarter, advancing 12.7% compared to an 8.1% gain for mid caps and a 5.9% gain for large caps. Value bested growth across the market cap spectrum with the widest dispersion in small caps where value led growth by more than 1,600 basis points. Mid cap value stocks beat their growth counterparts by more than 1,300 basis points, and large cap value stocks outpaced large cap growth by roughly 1,000 basis points.

It's fascinating to note that over the past 13 months, which includes a global pandemic, U.S. stocks have advanced 36%, and over the past 12 months they have advanced 62% (as measured by the Russell 3000® 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 in any environment there are individual businesses that are being mispriced by the market.

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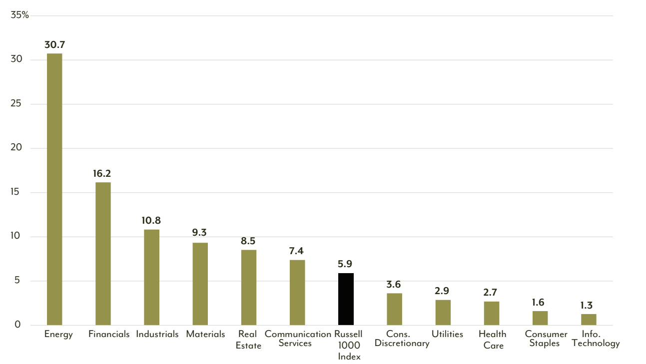
RUSSELL 1000® INDEX SECTOR RETURNS - 1Q21



Source: FactSet.

Performance Discussion

In Q1, the portfolio outpaced both the Russell 1000® Index and the blended benchmark (60% Russell 1000 Index/40% ICE Bank of America U.S. Treasury Bill 0-3 Month Index). On an absolute basis, the long portfolio contributed positively to return led by our financials holdings. Financials, our largest exposure, benefited from solid earnings along with optimism from vaccine rollouts, reopening of the economy, the prospect of rising rates, an improvement in credit, and the possibility of increased M&A activity. The short portfolio detracted amid strong broad market gains. Shorts in consumer discretionary in particular faced headwinds as cyclicals and those areas viewed as more leveraged to an economic reopening post-pandemic experienced solid returns.

On an individual holdings basis, top contributors to return all came from the long portfolio, including insurance firms AIG and The Hartford. AIG, our largest holding, continues to improve its underwriting margins. It has also benefited from strong premium growth in its commercial business. The Hartford received an unsolicited merger offer from Chubb at a substantial premium to its share price. The company's board has rejected the initial offer, but acquisition speculation continues, and the premium price offered helps underscore the attractiveness of The Hartford's business model.

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Johnson Controls, provider of industrial technology and service capabilities, was another top contributor on evidence of improving margins and good free cash flow generation. Management committed to an additional round of cost cutting which should contribute to margin improvements for the next few years while also laying out new environmental, social and governance targets.

Other top contributors in Q1 included U.S. bank Citigroup and Cimarex Energy, an independent oil and gas exploration and production company operating primarily in the Permian Basin and Mid-Continent regions.

Bottom contributors included short positions in medical device manufacturer Penumbra as well as Commerce Bancshares and First Financial Bankshares—the latter both participated in Q1's broad-based rally in bank stocks.

Our short position in personnel consulting firm Robert Half also weighed on returns. Robert Half posted stronger-than-expected quarterly results aided by the strong cyclical recovery following the pandemic-induced slowdown, as well as some one-time, COVID-related work the company had been performing for the government. We believe these tailwinds will be short-lived and continue to see long-term structural threats to Robert Half's core finance and accounting business that are not factored in the current stock price.

Our short in sporting goods retailer Dick's Sporting Goods was another bottom contributor. Its share price rose as the company continued benefiting from the increase in demand for home fitness equipment and outdoor activity products (e.g., golfing, biking, running). The outsized demand from house-bound consumers in key categories and lean industry inventory levels allowed for less promotional activity, resulting in a meaningful increase in profitability. While the company's product offering aligns well with consumer behavior shifts during COVID-19 restrictions, we view the benefit as temporary and believe the company should return to a much more moderate top-line growth profile in a normalized promotional environment, which should pressure operating margins amid ongoing investments in the e-commerce channel and in-store experience.

Portfolio Activity

We initiated a new long position in Verizon in Q1. For the better part of the last decade, and since the onset of the 4G and LTE eras, Verizon has been the leading wireless carrier in the U.S. Verizon's best-in-class 4G LTE network gives the company a sizable competitive advantage compared to T-Mobile and AT&T. This network advantage, combined with the company's ongoing network investments, will provide a strong platform for Verizon to build a leading 5G network.

We also initiated short positions in Macy's and Bank of Hawaii. For Macy's, optimism surrounding the near-term benefit of stimulus provided an opportunity, as we believe the current share price is not appropriately pricing in the secular challenges Macy's is facing, including declining mall traffic in lower-quality malls, increasing competition and price transparency. Macy's credit card revenue and real estate gains have helped mask a difficult financial position prior to COVID, and we believe the recent management turnover paired with initiatives we view as insufficient will make creating value for equity shareholders difficult.

We took advantage of the broad, bank stock rally to reestablish a short position in Bank of Hawaii. The bank remains a high quality operator but the valuation seems frothy—Hawaii's economy could face a lengthy recovery given its dependence on tourism, and in particular, inbound international tourism from Asia. Should M&A activity heat up in the banking industry, Bank of Hawaii is less likely to participate as either a buyer or seller based on current market share concentration among Hawaiian banks.

We exited our long position in Advance Auto Parts in favor of allocating capital to higher conviction opportunities. We exited our short position in Akamai Technology as our short thesis had largely played out.

The Fund's net exposure at the end of the quarter was 61.3%.

Market Outlook

After history's largest real GDP decline in early 2020, economic activity has been rebounding—albeit different economic areas are recovering at different paces. Retail spending, for example, has been above 2019 levels for several quarters, while other industries may take years to return to such levels. We expect the recovery to continue in 2021 as vaccines are distributed more broadly and restrictions on day-to-day life are eased.

The fiscal and monetary stimulus implemented in the past 12 months is unprecedented, and the Fed made it clear that it will continue doing what it takes to support the U.S. economy—including its intention to keep short-term interest rates near zero through 2023. President Biden also approved nearly $2 trillion of additional COVID-19 relief and is considering additional spending that could focus on areas like infrastructure, jobs and climate change. Along with real GDP growth above historic averages, corporate earnings are expected to increase dramatically in 2021 and reach new highs. That said, a sharp economic rebound, along with continued stimulus, could spur a rise in inflation. Higher inflation and the interest rates that may come with it could be a headwind for equity markets and are risks we are monitoring closely.

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 below historic norms.

Our primary focus is always on adding value through stock selection by identifying both long opportunities and short opportunities. We believe investors who are willing to perform deep research and valuation work to identify individual businesses that are being mispriced by the market will be rewarded with favorable risk-adjusted returns over the long-term.

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MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF MARCH 31, 2021

Alphabet, Inc. (Cl A)	2.8%	Long	First Financial Bankshares, Inc.	(1.0)%	Short
American International Group, Inc.	4.0	Long	Hartford Financial Services Group, Inc.	2.1	Long
Bank of Hawaii Corp.	(0.7)	Short	Johnson Controls International PLC	1.6	Long
Cimarex Energy Co.	1.3	Long	Macy's, Inc.	(0.3)	Short
Citigroup, Inc.	3.7	Long	Penumbra, Inc.	(1.2)	Short
Commerce Bancshares, Inc.	(1.4)	Short	Robert Half International, Inc.	(1.3)	Short
Dick's Sporting Goods, Inc.	(1.1)	Short	Verizon Communications, Inc.	0.9	Long
Facebook, Inc. (Cl A)	2.7	Long			

PERIOD AND ANNUALIZED TOTAL RETURNS AS OF MARCH 31, 2021

	SINCE INCEPTION (6/30/00)[1]	20-YR	15-YR	10-YR	5-YR	3-YR	1-YR	YTD	1Q21	EXPENSE RATIO GROSS	EXPENSE RATIO NET[2,3]
LONG-SHORT FUND											
Class I	6.92%	6.72%	5.52%	7.44%	7.70%	8.23%	41.64%	8.80%	8.80%	1.55%	1.54%
BENCHMARKS											
Russell 1000 Index	7.29	8.78	10.17	13.97	16.66	17.31	60.59	5.91	5.91	—	—
60%/40% Blended Index	5.25	6.05	6.76	8.68	10.51	11.17	33.64	3.54	3.54	—	—
Russell 1000 Value Index	7.69	7.71	7.69	10.99	11.74	10.96	56.09	11.26	11.26	—	—

[1] The Fund was long-only from inception through June 2002.

[2] Includes dividend expense relating to short sales. If dividend expenses relating to short sales were excluded, the Expense Ratio for the Long-Short Fund would have been 1.08% for Class I.

[3] The Fund may invest in another Diamond Hill Fund. Diamond Hill Capital Management, Inc. is required to permanently waive a portion of its management fee in the pro-rata amount of the management fee charged by the underlying Diamond Hill Fund.

Risk Disclosure: The Fund uses short selling which incurs significant additional risk. Theoretically, stocks sold short have the risk of unlimited losses. Overall equity market risks may affect the value of the fund.

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.

Performance returns assume reinvestment of all distributions. Returns for periods less than one year are not annualized. Class I shares include Investor share performance achieved prior to the creation of Class I shares.

Fund holdings subject to change without notice.

The Russell 1000 Index is an unmanaged market capitalization-weighted index comprised of the largest 1,000 companies by market capitalization in the Russell 3000 Index, which is comprised of the 3,000 largest U.S. companies by total market capitalization. The blended index represents a 60% weighting of the Russell 1000 Index and a 40% weighting of the ICE BofAML U.S. T-Bill 0-3 Month Index. The ICE BofAML U.S. T-Bill 0-3 Month Index is comprised of U.S. dollar denominated U.S. Treasury Bills with a term to maturity of less than 3 months. The Russell 1000 Value Index is an unmanaged market-capitalization weighted index measuring the performance of the large cap value segment of the U.S. equity universe including those Russell 1000 Index companies with lower expected growth values. The index data referenced herein is the property of ICE Data Indices, LLC, its affiliates ("ICE Data") and/or its third party suppliers and has been licensed for use by Diamond Hill Capital Management, Inc. ICE Data and its third party suppliers accept no liability in connection with its use. See diamond-hill.com for a full copy of the disclaimer. ICE Data was not involved in the creation of the blended index. These indices do not incur fees and expenses (which would lower returns) and are not available for direct investment.

Index data source: London Stock Exchange Group PLC and ICE Data Indices, LLC. See diamond-hill. com/disclosures for a full copy of the disclaimer. The ICE index data referenced herein is the property of ICE Data Indices, LLC, its affiliates ("ICE Data") and/ or its third party suppliers and has been licensed for use by Diamond Hill Capital Management, Inc. ICE Data and its third party suppliers accept no liability in connection with its use. ICE Data was not involved in the creation of the blended index.

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.