Diamond Hill Long-Short Fund Commentary

As of June 30, 2021

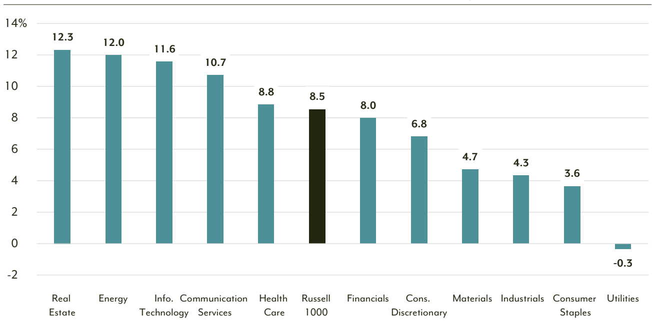
Market Commentary

Equity markets moved higher in Q2, closing out the first half of the year with double-digit gains as the economic recovery picked up steam. Vaccination rates continued to rise—albeit at a slower pace—and many states lifted mask mandates giving consumers more confidence that conditions are improving. With a backdrop of improving economic conditions, inflation continued to move higher, though it remains unclear whether the upward pressures are transitory or the beginning of a longer-term trend.

Most sectors in the Russell 1000® Index advanced in Q2, with double-digit gains in real estate (12%), energy (12%), technology (11%) and communication services (10%). With inflation concerns on the rise, investors looking to hedge their portfolios boosted real estate stocks in Q2, given this market segment often benefits from pricing power. After taking a breather in Q1, communications services and technology stocks rallied on the back of higher economic growth, including Facebook, which advanced more than 18%. Relative laggards this quarter were the more defensive sectors of the market, including consumer staples and utilities, which returned 3.6% and -0.3%, respectively.

In a reversal from Q1, the Russell 1000® Index posted the strongest gains (up 8.5%) followed closely by the Russell Midcap® Index (up 7.5%) and then the small cap Russell 2000® Index (up 4.3%). Also changing course this quarter was the preference for value—the growth indices' advance roughly doubled value's in the large and mid cap market segments. Interestingly, the small cap value index slightly edged out small growth. The value indices across all market cap segments still lead by a wide margin year to date due to their strong Q1 performance.

RUSSELL 1000® INDEX SECTOR RETURNS - 2Q21



Source: FactSet, as of 6/30/2021.

TEAM

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Performance Discussion

The portfolio delivered absolute returns but trailed 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) in Q2 amid strong broad market results. Our short book detracted from returns, particularly our short exposure to technology and health care. Our long book performed better, though it still trailed the index, due in large part to relative weakness among our long technology and financials holdings.

On an individual holdings basis, top contributors to return all came from the long portfolio, including KKR & Co, Alphabet and Facebook. Private equity firm KKR is benefiting from the combination of a strong fundraising cycle along with a healthy environment for monetizing prior investments.

Google's parent Alphabet released additional disclosures for its Google Cloud segment, providing investors increased visibility into the underlying fundamentals of Alphabet's various businesses. We expect Google search and YouTube advertising, along with the company's other initiatives including machine learning and its Cloud business, to continue driving sustainable profitable revenue growth for the company.

Facebook is the world's largest social network and owns other large platform apps such as Instagram, WhatsApp and Messenger. Its family of apps benefits from a network effect, providing an essential utility to users by allowing them to connect with friends and share their experiences. We believe Facebook's attractive network economics will remain in place over the long term. In our view, the company has executed exceptionally well over the past three years, adding new features and services that users enjoy. We expect Facebook advertising to drive revenue growth with an attractive margin profile for the company.

Other top contributors to return in Q2 included software and IT services provider Microsoft and diversified holding company Berkshire Hathaway.

DIAMOND HILL | FUNDS

Bottom contributors included our short positions in Dick's Sporting Goods and Oracle. Sporting equipment retailer Dick's Sporting Goods has been benefiting from a pandemic-related demand increase for home fitness equipment and outdoor activity products. The outsized demand in key categorizes and lean industry inventory levels allowed for less promotional activity, resulting in meaningful profitability growth. While the company's product offering aligns well with consumer behavior shifts due to COVID-19 restrictions, we view the benefit as mostly temporary and believe the company should return to a much more moderate top-line growth profile and normalized operating margin once these temporary dynamics fade.

Shares of enterprise IT service provider Oracle rose in Q2 despite underwhelming quarterly results, presumably because investors were attracted to Oracle's statistically cheap valuation relative to other technology companies. Investors typically pay premium multiples for technology companies in anticipation of high revenue growth and future operating margin expansion, but Oracle has anemic revenue growth prospects and very full operating margins with little-to-no room for future margin expansion, in our view. We believe Oracle should trade at a meaningfully lower multiple than companies that have much more attractive operating income growth profiles.

Our long position in IT services provider Cognizant Technology Solutions also detracted in Q2. Cognizant has experienced a higher-than-normal level of employee attrition given the highly competitive nature of the industry right now, which has hampered near-term revenue growth. However, we believe the impact on long-term intrinsic value is limited.

Other bottom contributors to return in Q2 included short positions in life sciences tools and services company Waters Corporation and personnel consulting firm Robert Half.

Portfolio Activity

In Q2, we initiated new long positions in Wells Fargo, WNS (Holdings) Limited, Freeport-McMoRan and Colfax Corporation. We added multinational financial services company Wells Fargo to the portfolio as we became increasingly comfortable with the management transition as well as progress toward a resolution of key outstanding regulatory issues. The company also has significant excess capital that can now be deployed as the capital return limits instituted last year have been eliminated. Finally, the company has been operating at well above normalized expense levels over the past few years and should be positioned to return to more typical levels in the years ahead.

Business process management company WNS has a strong track record of creating process efficiencies and cost savings for clients. WNS has meaningful exposure to travel and leisure clients, and modest disappointment with the pace of reacceleration in travel and leisure revenue created an opportunity to buy shares of WNS at what appeared to us an attractive price relative to our estimate of long-term intrinsic value.

Freeport-McMoRan is 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.

Colfax Corporation is a provider of orthopedic solutions including braces and reconstructive joint products as well as welding equipment and supplies. We believe Colfax has a strong business system enabling the company to continuously improve operations over time. We purchased shares this quarter following the company's announcement it will split its medical device and fabrication technology businesses into two separate companies, which we see as a positive development that is underappreciated by the market.

In Q2, we initiated new short positions in Westamerica Bancorporation, CarMax and United Parcel Service (UPS). Westamerica Bank's valuation appears stretched to us given a below-average earnings growth outlook. Since 80% of the bank's earning assets are securities as opposed to loans, it is essentially a levered bond portfolio trading at a sizeable premium to tangible book value, making it an attractive short candidate.

Used car dealer CarMax is under increasing competitive pressure which could negatively impact pricing. More dealers are seeking growth in online sales, and new entrants like Carvana have already shown a willingness to be aggressive when buying and selling vehicles. We believe today's favorable environment for the used vehicle market—driven by low inventories, favorable interest rates and recent government stimulus—is not sustainable, and the market should normalize with the passage of time.

We had an attractive opportunity to initiate a short position in UPS after the announcement of strong fundamental results in 2020 and 1Q 2021 resulted in a share price increase. We believe shares are not appropriately valuing the potential competitive headwinds UPS should face in the coming years.

We exited our long position in JP Morgan as it approached our estimate of intrinsic value. We covered our short position in commercial REIT VEREIT following its stock-for-stock merger with Reality Income. We covered our short in Asbury Automotive Group in favor of allocating into higher conviction ideas, including the CarMax short position.

The Fund's net exposure at the end of the quarter was 59%.

Market Outlook

Vaccination progress globally has allowed economies to reopen and consumers to dust off the cobwebs of being in a prolonged lockdown. Many economic sectors are recovering quickly as pent-up demand is unleashed. That said, some industries may take years to return to prior levels, e.g., business travel. Additionally, the COVID-19 Delta variant, which has caused a spike in cases and hospitalizations, could be a deterrent to further economic progress as we move into the second half of the year.

Fiscal and monetary stimulus remains at unprecedented levels. The White House is pursuing additional spending measures to support the economy, including a new infrastructure plan. The Fed remains extraordinarily accommodative, but its recent comments acknowledged stronger economic activity and an uptick in inflation. The Fed's outlook was mostly unchanged in its recent meeting, which seemed to curb some inflation concerns. Rate hikes are now expected to occur in 2023 rather than 2024, but continued economic strength, federal stimulus, wage growth and supply/demand tightness could alter that course and force the Fed to pull the timeframe forward. Rising inflation and the higher interest rates that may come with it could be a headwind for equity markets and are risks we are monitoring closely.

Along with real GDP growth above historic averages, corporate earnings are expected to come in markedly higher in 2021. Equity markets seem to largely reflect the economic progress with forward P/E multiples near historic highs. From current levels, equity market returns over the next five years are expected to be below long-term averages.

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.

MENTIONED SECURITIES AND RESPECTIVE WEIGHTS AS OF JUNE 30, 2021

Alphabet, Inc. (Cl A)	3.1%	Long	**Microsoft Corp.**	2.3%	Long
Berkshire Hathaway, Inc. (Cl B)	3.4	Long	**Oracle Corp.**	(1.8)	Short
CarMax, Inc.	(0.7)	Short	**Robert Half International, Inc.**	(1.5)	Short
Cognizant Technology Solutions Corp. (Cl A)	2.0	Long	**United Parcel Service, Inc. (Cl B)**	(0.7)	Short
Colfax Corp.	0.7	Long	**Waters Corp.**	(1.1)	Short
Dick's Sporting Goods, Inc.	(1.4)	Short	**Wells Fargo & Co.**	1.3	Long
Facebook, Inc. (Cl A)	3.2	Long	**Westamerica Bancorp**	(0.2)	Short
Freeport-McMoRan, Inc.	0.7	Long	**WNS (Holdings) Ltd.**	1.1	Long
KKR & Co., Inc. (Cl A)	3.0	Long			

PERIOD AND ANNUALIZED TOTAL RETURNS AS OF JUNE 30, 2021

	SINCE INCEPTION (6/30/00)[1]	20-YR	15-YR	10-YR	5-YR	3-YR	1-YR	YTD	2Q21	EXPENSE RATIO GROSS	EXPENSE RATIO NET[2,3]
LONG-SHORT FUND											
Class I	7.05%	6.33%	5.65%	7.93%	8.94%	9.57%	29.98%	13.32%	4.15%	1.55%	1.54%
BENCHMARKS											
Russell 1000 Index	7.62	8.90	10.89	14.90	17.99	19.16	43.07	14.95	8.54	—	—
60%/40% Blended Index	5.44	6.09	7.15	9.21	11.27	12.17	24.46	8.80	5.08	—	—
Russell 1000 Value Index	7.85	7.73	8.01	11.61	11.87	12.42	43.68	17.05	5.21	—	—

[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 June 30, 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 BofA U.S. T-Bill 0-3 Month Index. The ICE BofA 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.

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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.

The Russell Midcap Index is an unmanaged market capitalization-weighted index measuring performance of the 800 smallest companies in the Russell 1000 Index. The Russell 2000 Index is an unmanaged market capitalization-weighted index comprised of the smallest 2,000 companies by market capitalization in the Russell 3000 Index, which is comprised of the 3,000 largest U.S. companies by total market capitalization.