DIAMOND HILL

INVESTED IN THE LONG RUN

All Cap Select Fund

As of 31 March 2022

Market Commentary

A wild quarter in equity markets ended in the worst returns since Q1 2020. Rising inflation drove the Federal Reserve to begin its rate hiking cycle, while Putin's invasion of Ukraine sent commodity prices surging (learn more about the war's agricultural impact in our recent podcast) and an already challenged supply chain system into further disarray. After the Fed raised rates in March, some optimism crept back into markets as investors viewed the sell-off as an opportunity to gobble up stocks that sold off sharply in January and February.

The Russell 3000 Index closed the quarter down -5.28%. Large cap stocks declined the least, down -5.13%, as measured by the Russell 1000 Index. Returns were weaker down the market-cap spectrum as the Russell Midcap Index fell -5.68% and the Russell 2000 Index declined -7.53%. Across the cap spectrum, stocks in the value indexes held up far better than their growth index peers. The Russell 3000 Value Index outpaced its growth counterpart by 840 basis points (bps). The Russell Midcap Value and Russell 2000 Value Indexes outpaced their growth counterparts by more than 1,000 bps each.

In the Russell 3000 Index, the energy sector advanced nearly 39% as the Russia/Ukraine war and sanctions on the Russian energy sector sent oil and gas prices skyrocketing in Q1. Brent crude reached a high of $140 per barrel in early March, a level not seen since the global financial crisis in 2008. In the US, gasoline prices jumped past $4 per gallon, with expectations that prices could reach $5 over the next six months. (Learn more about the state of energy markets in our latest industry perspective.) The utilities sector also posted a modest positive return in Q1.

Team

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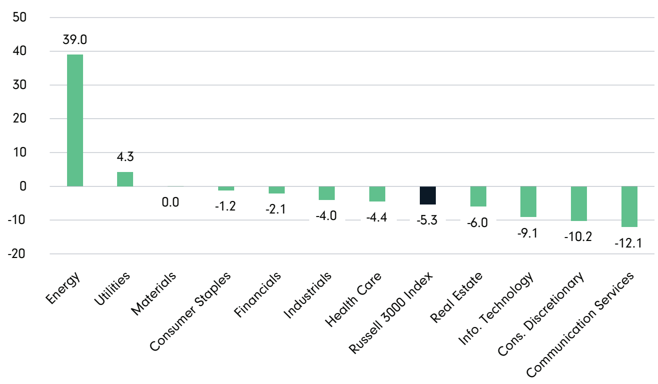
On the downside, the communication services sector fell just over -12% this quarter, driven by declines of some of the largest media companies including Meta (-33%), Netflix (-37%), Disney (-11%) and Alphabet (-3%). The consumer discretionary and technology sectors also posted meaningful losses in the -9% to -10% range. The remaining sectors posted declines in the -1% to -6% range.

1Q22 Russell 3000 Index Sector Returns (%)



Source: FactSet, as of 31 Mar 2022.

Performance Discussion

During a volatile quarter, the portfolio held up meaningfully better than the Russell 3000 Index. In the technology sector, we benefited from the relative strength of our holdings as well as our underweight exposure to a sector that took a beating in the first half of the quarter. In a similar vein, our outsized investment in the financials sector was beneficial and our stocks meaningfully outpaced those in the index. We also had positive stock selection in the communication services, health care, materials and industrials sectors. The largest headwind for us in Q1 was our lack of exposure to the energy sector.

On an individual holdings basis, top contributors to return included mobile game developer Zynga, property and casualty insurance company Alleghany and shipping and transportation company Kirby. Both Zynga and Alleghany were the targets of M&A activity during the quarter. Video game company Take-Two announced its acquisition of Zynga, which is expected to close by the end of Q2, and diversified holding company Berkshire Hathaway announced its plans to acquire Alleghany. Kirby, the largest tank barge operator in the US, benefited as the Omicron wave receded in North America and the demand for energy continued to recover. Increasing demand for hydrocarbon distillates and general industrial activity also boosted Kirby's share price.

Other top contributors included property and casualty insurance company American International Group and mortgage servicing company Mr. Cooper Group. AIG continued to execute on its turnaround of the global property and casualty business, showing underwriting margin improvements during the quarter. Mr. Cooper Group continues to perform well fundamentally, even with the prospects of a challenging mortgage originations market. Its balanced business model between originations and servicing should position the company well in the quarters ahead.

Among our weakest stocks were Meta Platforms, KKR & Co. and V.F. Corporation. The share price of Meta (Facebook's parent company) declined significantly as the company reported a slight miss in earnings and provided guidance for a weak 1Q22. Meta also highlighted that competition from TikTok has been impacting user engagement in its apps. In our view, the company is taking the proper steps and investing heavily in ramping up its "Reels" feature, which competes with TikTok. Meta's stock is trading at a meaningful discount to our estimate of intrinsic value, and we expect the company to retain its attractive network economics and manage competition and user privacy concerns well without impairing the value of the business over the long term.

With private equity firm KKR, investors seemed concerned about the elevated valuations and leverage in private markets, especially during times of equity market volatility. In addition, while KKR's recent quarterly results were solid, the company's assets under management (AUM) growth was modest, and earnings were partially driven by a one-time sale of Origis Energy. In our view, the current share price implies flat AUM growth going forward, which we believe is too pessimistic. We continue to believe KKR is well-positioned to benefit from institutional investors increasing allocations to private markets and concentrating capital with managers who have strong brands and performance.

Apparel and footwear company V.F. Corporation underperformed due to the longer-than-expected recovery for its Vans brand, elevated freight costs dampening gross margin and its modest exposure to the slowdown in China. The company's remaining brands are performing well. Although consolidated results have been choppy, we believe management is making the right strategic decisions for future profitable growth.

Other bottom contributors included global consumer apparel manufacturer Hanesbrands and Las Vegas casino operator Red Rock Resorts. The share price of Hanesbrands pulled back in Q1 due to concerns around the impact cost inflation might have on future profitability despite solid quarterly results and increased longer-term financial targets. As with other apparel companies, the market is growing increasingly concerned with the potential of a consumer spending slowdown and return of promotional activity. Hanesbrands continues to trade at an attractive discount to our estimate of intrinsic value based on the opportunity to grow its Champion brand and for the innerwear segment to consistently achieve modest growth. Red Rock Resorts' stock took a breather in Q1—following an extremely strong 2021 return—as Omicron concerns and inflationary risks related to the company's Durango development weighed on investors' minds.

Portfolio Activity

The market environment in Q1 provided a meaningful opportunity for us to initiate positions in high-quality names that sold off indiscriminately during the quarter and were trading at prices we haven't seen in quite some time. Alphabet and Amazon are two examples. Alphabet, which owns Google and other products, sold off as the expected rise in interest rates by the Federal Reserve drove what we viewed as excessive investor pessimism. We believe these headwinds are temporary and expect Google's search engine advertising, YouTube advertising and other initiatives to continue driving revenue growth over the long term.

Amazon, one of the leading providers of public cloud services and online retailing, is a rapidly growing business that has been investing heavily in infrastructure and content to improve its customer experience. These investments have obscured the magnitude of sustainable free cash flow as well as the attractive valuation of the business relative to peers.

Lancaster Colony Corporation was another new addition in Q1. It is a food manufacturer that produces and markets specialty consumer food products, including refrigerated dressings and dips, frozen breads and bagel bites, and shelf-stable sauces, dressings and croutons. Lancaster also holds retail licenses to sell branded items for foodservice accounts, such as Olive Garden, Buffalo Wild Wings and Chick-fil-A, to name a few. The company enjoys strong competitive positions in its product categories and is financially strong. Near-term headwinds—increased commodity and freight costs—have hampered the stock in recent months giving us an opportunity to initiate a position at an attractive discount to our estimate of intrinsic value.

We exited our positions in AbbVie and Pfizer, taking advantage of share price appreciation to lock in gains and redeploy capital to opportunities trading at a wider discount to our estimates of intrinsic value. We also exited Seaboard Flour, Cognizant Technology Solutions, Mondelez International and Boston Scientific in favor of more attractive opportunities.

Market Outlook

After a strong rebound in 2021, global GDP growth is expected to moderate in 2022, with the potential for additional pressure from lingering supply chain disruptions, higher oil prices and other impacts from Russia's invasion of Ukraine. Despite these headwinds, corporate earnings are expected to continue making new highs in 2022.

The sharp economic rebound in the US, along with unprecedented fiscal and monetary stimulus, an uptick in wage growth and instances of supply/demand tightness, has resulted in elevated inflation levels. The Federal Reserve has started to raise interest rates and end quantitative easing but may need to be more aggressive if inflation persists at elevated levels, which could be a headwind for equity markets.

Russia's invasion of Ukraine has the potential to disrupt the flow of exports from these countries, which may impact global supplies and prices for a wide variety of end markets. The potential impact to individual businesses varies, and we are monitoring these risks closely.

While the year-to-date pullback in equity markets has created some investment opportunities, broad market valuations remain above historical averages. From current levels, equity market returns over the next five years are likely to be below historical averages.

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.

Mentioned Securities and Respective Weights (%)

Alleghany Corp.	2.5	Lancaster Colony Corp.	2.5
Alphabet, Inc. (Cl A)	2.0	Meta Platforms, Inc. (Cl A)	3.4
Amazon.com, Inc.	2.3	Mr. Cooper Group, Inc.	6.7
American International Group, Inc.	6.0	Red Rock Resorts, Inc. (Cl A)	5.8
Berkshire Hathaway, Inc. (Cl B)	2.7	V.F. Corp.	2.6
Hanesbrands, Inc.	5.6	Walt Disney Co.	2.4
Kirby Corp.	3.1	Zynga, Inc. (Cl A)	3.4
KKR & Co., Inc. (Cl A)	4.3		

Period and Annualized Total Returns (%)

	Since Inception (30 Dec 2005)	15Y	10Y	5Y	3Y	1Y	YTD	1Q22	Expense Ratio (%)
Class I (DHLTX)	10.10	9.98	13.81	14.65	20.60	13.75	-1.75	-1.75	0.87
Russell 3000 Index	10.36	10.10	14.28	15.40	18.24	11.92	-5.28	-5.28	—
Russell 3000 Value Index	8.16	7.33	11.61	10.16	12.99	11.10	-0.85	-0.85	—

Risk disclosure: Because the portfolio holds a limited number of securities, a decline in the value of these investments may affect overall performance to a greater degree than a less concentrated portfolio. Small- and mid-capitalization issues tend to be more volatile and less liquid than large-capitalization issues.

The views expressed are those of the author as of 31 Mar 2022 and are subject to change without notice. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice. Investing involves risk, including the possible loss of principal.

Past performance is not indicative of future results. Investment returns and principal values 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 quoted. For current to most recent month-end performance, visit diamond-hill.com.

Performance assumes reinvestment of all distributions. Returns for periods less than one year are not annualized. These total return figures may reflect the waiver of a portion of a Fund's advisory or administrative fees for certain periods. Without such waiver of fees, the total returns would have been lower. 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 3000 Index measures the performance of roughly 3,000 of the largest US companies. The Russell 3000 Value Index measures the performance of the largest US companies with lower price/book ratios and forecasted growth values. The indexes are unmanaged, market capitalization weighted, include net reinvested dividends, do not reflect fees or expenses (which would lower the return) and are not available for direct investment.

Index data source: London Stock Exchange Group PLC. See diamond-hill.com/disclosures for full disclaimers.

Securities referenced may not be representative of all portfolio holdings. Contribution to return is not indicative of whether an investment was or will be profitable. To obtain contribution calculation methodology and a complete list of every holding's contribution to return during the period, contact 855.255.8955 or info@diamond-hill.com.

Carefully consider the Fund's investment objectives, risks and expenses. This and other important information are contained in the Fund's prospectus and summary prospectus, which are available at diamond-hill.com or calling 888.226.5595. Read 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. Not FDIC insured | No bank guarantee | May lose value

The Russell 1000 Index measures the performance of roughly 1,000 US large-cap companies. The Russell Midcap Index measures the performance of roughly 800 US mid-cap companies. The Russell Midcap Value Index measures the performance of US mid-cap companies with lower price/book ratios and forecasted growth values. The Russell 2000 Index measures the performance of roughly 2,000 US small-cap companies. The Russell 2000 Value Index measures the performance of US small-cap companies with lower price/book ratios and forecasted growth values.