DIAMOND HILL

INVESTED IN THE LONG RUN

Large Cap Fund

(closed to most new investors)

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 1000 Index closed the quarter down -5.13%. 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 1000 Value Index outpaced its growth counterpart by 830 basis points (bps), while the Russell Midcap Value and Russell 2000 Value Indexes outpaced their growth counterparts by more than 1,000 bps each.

In the Russell 1000 Index, the energy sector advanced more than 38% 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.) Utilities and materials stocks also posted small positive returns in Q1.

Team

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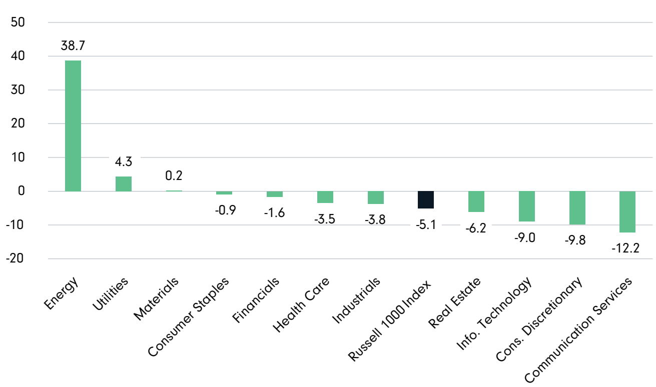
On the downside, the communication services sector fell just over -12% this quarter, driven by declines of some of the largest media companies including Meta (-33%), Netflix (-37%), Disney (-11%) and Alphabet (-3%). The consumer discretionary and technology sectors also posted high single-digit losses in the -8% to -10% range. The remaining sectors posted declines in the -1% to -6% range.

1Q22 Russell 1000 Index Sector Returns (%)



Source: FactSet, as of 31 Mar 2022.

Performance Discussion

During a volatile quarter, the portfolio held up better than the Russell 1000 Index by a decent margin in Q1. 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 held up better than those in the index. We also had positive stock selection in the industrials, consumer staples and communication services sectors. The largest headwind for us in Q1 was the underperformance of our holdings in the consumer discretionary sector.

On an individual holdings basis, top contributors to return included Chevron, Archer-Daniels-Midland and Berkshire Hathaway. Multinational energy company Chevron benefited from the rise in oil prices in Q1. Its share price rose to a level that exceeded our estimate of intrinsic value and we exited our position. We redeployed capital into ConocoPhillips, which was trading at a discount to our estimate of intrinsic value and is well positioned over the long run due to its low-risk asset base.

Archer-Daniels-Midland, more commonly known as ADM, is a leader in global nutrition focused on the development of ingredients and flavors for food and beverages, supplements and more. The company's recent operating results have benefited (unfortunately) from the war in Ukraine as grain prices and agricultural markets globally experienced strong price increases. ADM is positioned well to benefit from the volatility due to its stable North American agricultural base.

Diversified holding company Berkshire Hathaway reported strong earnings during the quarter and benefited from continued share repurchases below intrinsic value. The company also announced significant deployments of excess cash during the quarter, including the acquisition of Alleghany and a large increase in its stake in Occidental Petroleum.

Other top contributors included property and casualty insurance company American International Group and copper-focused mining company Freeport-McMoRan. AIG continued to execute on its turnaround of the global property and casualty business, showing underwriting margin improvements in the quarter, while rising demand for conductive metals and supply risk concerns from Russia lifted copper prices, boosting the shares of Freeport and other copper producers.

Among our weakest stocks were Meta Platforms, General Motors and NVR. 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.

General Motors—and the auto industry in general—continues to face headwinds related to supply chain disruptions and raw material cost inflation. In addition, uncertainty surrounding global energy markets due to inflation and the conflict in Ukraine has created a greater economic burden on consumers, which tends to slow automotive sales.

NVR is a homebuilder and mortgage bank. Its stock, along with other housing stocks, came under pressure in Q1 as mortgage rates rose and concerns that continued interest rate increases will cause a slowdown in new home demand. These near-term headwinds have not impacted our long-term investment thesis, and we believe NVR is well positioned to outperform over the long run.

Other bottom contributors included private equity firm KKR & Co. and home improvement retailer Home Depot. With 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 the 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.

Home Depot shares underperformed as continued solid fundamental results were outweighed by concerns about the impact rising mortgage rates may have on the housing market and general inflationary pressures potentially leading to a consumer spending slowdown. We view the long-term prospects and multi-year fundamental outlook as unchanged.

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.

We also initiated a position in Waste Management, one of the largest providers of waste collection services in the US. We believe it is a high-quality business with ownership of key landfill assets that provide pricing power over the long term. Its stock was trading at a discount to our estimate of intrinsic value due to short-term market concerns over an increase in growth investments—we expect these investments to be value creating over the long term.

In addition to Chevron, we exited our positions in Procter & Gamble and Public Storage as their stock prices approached our estimates of intrinsic value. We also exited our position in First Republic Bank during the quarter 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.

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Mentioned Securities and Respective Weights (%)

Alphabet, Inc. (Cl A)	2.1	General Motors Co.	2.3
Amazon.com, Inc.	0.8	Home Depot, Inc.	1.8
American International Group, Inc.	4.7	KKR & Co., Inc. (Cl A)	2.7
Archer-Daniels-Midland Co.	1.7	Meta Platforms, Inc. (Cl A)	2.4
Berkshire Hathaway, Inc. (Cl B)	2.8	NVR, Inc.	2.3
ConocoPhillips	3.4	Walt Disney Co.	2.6
Freeport-McMoRan, Inc.	2.6	Waste Management, Inc.	1.4

Period and Annualized Total Returns (%)

	Since Inception (29 Jun 2001)	20Y	15Y	10Y	5Y	3Y	1Y	YTD	1Q22	Expense Ratio (%)
Class I (DHLRX)	9.46	9.61	9.27	12.91	12.36	15.67	9.88	-3.31	-3.31	0.67
Russell 1000 Index	8.78	9.42	10.26	14.53	15.82	18.71	13.27	-5.13	-5.13	—
Russell 1000 Value Index	7.75	8.08	7.36	11.70	10.29	13.02	11.67	-0.74	-0.74	—

Risk disclosure: Overall equity market risks may affect the portfolio's value.
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. 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 measures the performance of roughly 1,000 US large-cap companies. The Russell 1000 Value Index measures the performance of US large-cap 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 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.