DIAMOND HILL

INVESTED IN THE LONG RUN

Long-Short Fund

As of 31 March 2022

Market Commentary

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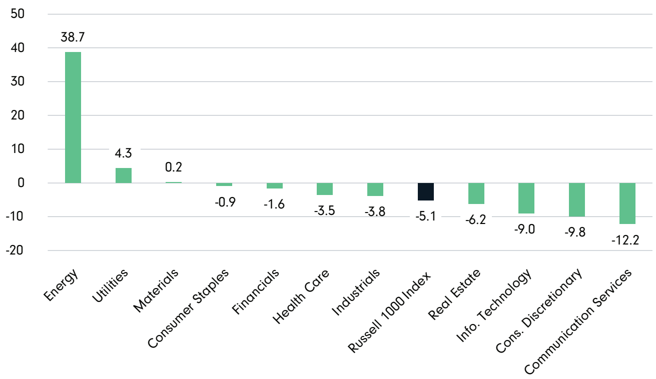
On the downside, the communication services sector fell just over -12% this quarter, driven by declines of some of the largest media companies including Meta (-33%), Netflix (-37%), Disney (-11%) and Alphabet (-3%). The consumer discretionary and technology sectors also posted high single-digit losses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

The portfolio's returns were just about flat—slightly positive—in Q1, outpacing negative returns from both the Russell 1000 Index and the blended benchmark (60% Russell 1000 Index/40% Bloomberg US Treasury Bills 1-3 Month Index). Our long portfolio was down in aggregate, though it fared better than the market overall. Our technology, financials and industrials holdings were additive to returns, with our holdings outpacing index peers. Our communications services holdings were a relative weak spot, including the aforementioned Meta. Conversely, our short portfolio contributed positively to overall performance.

On an individual holdings' basis, top contributors to return were all from our long portfolio, including American International Group (AIG), Archer-Daniels-Midland (ADM) and Berkshire Hathaway. AIG continued to execute on its turnaround of the global property and casualty business, showing underwriting margin improvements in the quarter.

ADM is a leading agricultural processor that also operates a global nutrition business 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 Q1 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 in Q1 included multinational energy company Chevron Corp. and energy exploration and production company Coterra Energy. Both benefited from increased energy demand as COVID-related economic restrictions eased in tandem with concerns regarding supply interruptions related to Russia's invasion of Ukraine.

Bottom contributors to return also all came from our long portfolio, including (as mentioned) Meta Platforms, KKR & Co. and Abbott Laboratories. 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 Q1. 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 global investment firm KKR, investors seemed concerned about 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 asset 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.

Developer of medical products Abbott Labs announced a recall of its infant formula brand Similac® in the US. The recall will modestly impact near-term revenues; however, we remain optimistic about the company's prospects over the long run because, in our view, it is one of the highest quality names in health care with a talented management team that makes smart capital allocation decisions. Abbott also has leading health care and consumer franchises with a particularly strong competitive position in the medical device business. Abbott continues to launch innovative products in key strategic areas (such as diabetes, structural heart and diagnostics), which should help drive revenue growth along with margin expansion.

Other bottom contributors in Q1 included V.F. Corporation and Citigroup. 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. Shares of Citigroup declined in the quarter as investors became increasingly negative on capital markets activity. The company is also continuing to divest certain consumer banking geographies which may be dilutive to earnings in the near term.

Portfolio Activity

We added no new long positions to the portfolio in Q1 while initiating five new short positions in RPC, Inc., Clorox Company, JM Smucker Company, NetScout Systems and Boston Properties. Shares of oil and gas services company RPC have risen dramatically recently, boosted by concerns over oil supply reliability. We do not believe RPC's market opportunity is substantial enough to justify the current share price.

We believe manufacturer of consumer and professional products Clorox Company will be challenged to achieve management's mid-single-digit revenue growth guidance. The company appears over-exposed to categories with high private label penetration, is facing cost pressures and is trading at a premium to peers that we believe are of higher quality.

Food and beverage manufacturer JM Smucker is seeing a majority of its revenues being generated by slower growth market segments, and it has no exposure to the faster growing premium space for both coffee and pet food. With cost pressures rising, we also do not expect to see margin improvements.

Provider of cybersecurity solutions NetScout Systems had previously dominated a small niche of the networking market. More recently, it has struggled with disruptive technology trends, increased competition and reduced spending from its large telecom customers. Importantly, we believe the company's end markets have progressed in a way that will continue to disadvantage this legacy technology vendor going forward.

Commercial real estate investment trust (REIT) Boston Properties (BXP) has a solid balance sheet and good assets. However, as the largest public office REIT, it operates in a challenging space due to high capital expenditure needs, the ease of adding new supply and tenant leverage. BXP is also concentrated in large coastal markets that have high taxes and burdensome regulations, and subsequently have seen population outflows. We believe the combination of a tough business and a marginally worse environment given the rising acceptance of at-home work will be challenging over the long term for BXP.

We sold no long positions in Q1. We covered our short in the Boston Beer Company after it hit our estimate of intrinsic value to make room for higher conviction shorts.

The Fund's net exposure at the end of the quarter was 58%.

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 adding value through stock selection by identifying both long 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 (%)

Abbott Laboratories	1.5	long	Coterra Energy, Inc.	1.5	long
Alphabet, Inc. (Cl A)	3.6	long	J.M. Smucker Co.	(0.5)	short
American International Group, Inc.	3.9	long	KKR & Co., Inc. (Cl A)	3.0	long
Archer-Daniels-Midland Co.	1.3	long	Meta Platforms, Inc. (Cl A)	3.5	long
Berkshire Hathaway, Inc. (Cl B)	2.4	long	NetScout Systems, Inc.	(0.6)	short
Boston Properties, Inc.	(0.8)	short	RPC, Inc.	(0.3)	short
Chevron Corp.	1.3	long	V.F. Corp.	1.3	long
Citigroup, Inc.	2.7	long	Walt Disney Co.	2.2	long
Clorox Co.	(0.4)	short			

Period and Annualized Total Returns (%)

	Since Inception (30 Jun 2000)[1]	20Y	15Y	10Y	5Y	3Y	1Y	YTD	1Q22	Expense Ratio (%) Gross	Expense Ratio (%) Net[2,3]
Class I (DHLSX)	7.06	6.73	5.49	7.79	7.04	10.44	9.82	0.07	0.07	1.66	1.65
Russell 1000 Index	7.56	9.42	10.26	14.53	15.82	18.71	13.27	-5.13	-5.13	—	—
60%/40% Blended Index	5.38	6.35	6.69	8.99	10.04	11.64	8.02	-3.04	-3.04	—	—
Russell 1000 Value Index	7.87	8.08	7.36	11.70	10.29	13.02	11.67	-0.74	-0.74	—	—

[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 portfolio 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 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 Long-Short Fund Blended Index represents a 60/40 weighted blend of the Russell 1000 Index and the Bloomberg US Treasury Bills 1-3 Month Index. The Russell 1000 Index measures the performance of roughly 1,000 US large-cap companies. The Bloomberg US Treasury Bills 1-3 Month Index measures the performance of US Treasury bills with time to maturity between 1 and 3 months. 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 and Bloomberg Services Limited. 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.