DIAMOND HILL

INVESTED IN THE LONG RUN

Long-Short Fund

As of 30 Jun 2022

Market Commentary

US stocks ended a tough quarter down more than -16% and closed out one of the worst first halves of a year in decades. While this downturn has its own unique characteristics — a war in Ukraine, inflation and an energy shock — it has followed a fairly typical pattern over the past six to nine months. The initial phase started in mid-2021 when some of the most speculative growth stocks, e.g., those with no earnings, sold off dramatically, providing some early warning signs of cracks in the paradigm that had existed for a full decade — low interest rates and ever-increasing valuations. As we moved through 2022, the market meltdown expanded to include anything within the growth marketplace, including some high-quality companies like Alphabet, Microsoft and Amazon — companies with profits and free cash flow that are operating well but still sold off in sympathy, in our view, likely based more on near-term investor sentiment.

With recession expectations rising, it was no surprise to see more defensive areas of the market hold up better in Q2. In the Russell 1000 Index, the consumer staples, energy and utilities sectors pulled back roughly -5% during the quarter. Health care stocks fell -6%. The remaining sectors fell double-digits with the bulk of the pain coming from the consumer discretionary, technology and communication services sectors, all of which declined more than -20%.

Team

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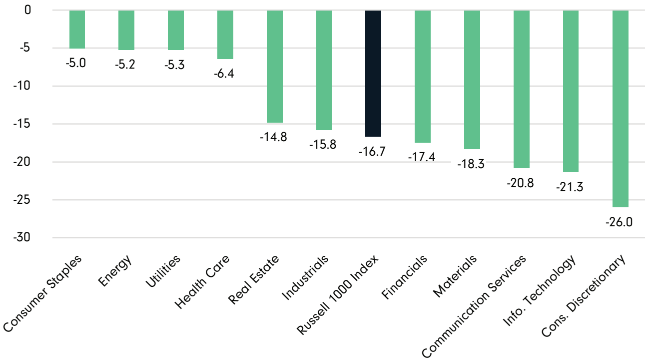
2Q22 Russell 1000 Index Sector Returns (%)



Source: FactSet, as of 30 Jun 2022.

Returns were roughly similar across the market-cap spectrum with the large-cap Russell 1000 Index ending the quarter down -16.7%, the Russell Midcap Index falling -16.9% and the small-cap Russell 2000 Index declining -17.2%. Across the cap spectrum, stocks in the value indices held up better than their growth peers. The Russell 1000 Value Index outperformed its growth counterpart by 871 basis points (bps), while the Russell Midcap Value and Russell 2000 Value Indices outperformed their growth peers by 639 bps and 397 bps, respectively.

After a decade of extraordinary market returns, especially within the growth markets, it can be easy to forget that drawdowns are a part of long-term investing. And while the current decline has been a meaningful one — with a 20%-plus selloff — it is not out of the ordinary for long-term investors. In looking back as recently as November 2021, the Russell 1000 Growth Index compounded annually at approximately 20% during the prior decade. That was an unusual environment with equity returns that simply did not appear sustainable to us. Thus, the current market correction should not come as a shock to market participants with a long-term investment horizon.

As active managers, we believe this type of environment and volatility offers opportunities for us to add value for clients who are able to withstand these types of drawdowns and stay invested over the long run.

Performance Discussion

In a tough quarter where no area of the market was spared, the portfolio held up better than the Russell 1000 Index and the blended benchmark (60% Russell 1000 Index/40% Bloomberg US Treasury Bills 1-3 Month Index). Our short book fell slightly less than the Russell 1000 Index though still added positively to returns. Our long book outperformed the index, aided by our technology and consumer discretionary holdings — though negative in aggregate, they outpaced index peers.

On an individual holdings' basis, top contributors to return in Q2 were all from our short portfolio, including Avis Budget Group, Robert Half International and Cisco Systems. Avis Budget Group, one of the world's largest rental car companies, reported strong Q1 results, partially driven by a large, one-time gain on sales of vehicles. However, the market seemed more focused on the normalized earnings power of the business, which we view as challenged due to the car rental industry being commoditized and price competition being important given the importance of corporate contracts. Further, we anticipate business travel to structurally decline.

Shares of Robert Half International, provider of specialized staffing and services, were weak due to rising expectations for recession and fears of a weakening labor market. These concerns were exacerbated by Robert Half reporting disappointing Q1 results in its temp staffing business, which can be a leading indicator of future performance. As recent tailwinds from a strong cyclical recovery and temporary, COVID-related work dissipate, we believe long-term structural threats to Robert Half's finance and accounting business line will become more obvious, adding to conviction in our short position.

Networking services provider, Cisco reported relatively weak quarterly results tied to supply chain challenges. Cisco's management noted these challenges are likely to persist for the next several quarters, which led Cisco to substantially lower guidance. While Cisco's order growth remained robust in the quarter, it meaningfully decelerated from the prior four quarters, a potential indicator of slowing demand and in line with our thesis.

Other top contributors included our short positions in Penumbra and Best Buy. Shares of medical device company Penumbra declined as higher expenses weighed on the profitability of the business. Electronics retailer Best Buy was weak as the company lowered guidance on weaker-than-expected results and the potential for inflation to negatively impact future demand for the company's more discretionary products.

Bottom contributors to return all came from our long portfolio, including Meta Platforms, Alphabet and Freeport McMoRan. Both Meta (Facebook's parent company) and Alphabet (formerly Google) were pressured by concerns of a weaking macroeconomic environment and the impact on ad spending. Investors are also watching the potential for rising regulatory threats to Meta's business globally and are mindful of competition from TikTok and Apple. We believe Meta's significant user base gives it tremendous network benefits that should allow it to weather competitive threats over time. Alphabet is facing a tough comparison when it laps the strong recovery in its business in 2021. We remain confident in Alphabet's ability to innovate and make strategic acquisitions over the long term.

In Q1, shares of copper-focused mining company Freeport-McMoRan were up meaningfully with other copper producers on rising demand for conductive metals and supply risk concerns from Russia. Despite reporting excellent Q1 results, management raised its cost guidance for the year, attributing it to rising fuel costs and inflation of other materials. Freeport's share price declined in Q2 with other large miners as a result, and we think the response by market participants is overdone. The company continues to generate strong free cash flow, which it has returned to shareholders in the form of dividends and buybacks. We also remain attracted to Freeport's unique exposure to high-quality copper producing mines, which is a key industrial input, particularly for green technologies, and we believe it's a strong business oriented toward strengthening end markets.

Other bottom contributors included our long positions in Walt Disney and American International Group (AIG). Disney's shares fell on concern over its streaming business as Netflix's recent operating results indicated near-term saturation. Global insurance company AIG reported strong Q1 earnings but the selloff in equity markets delayed the IPO of its life and retirement business.

Portfolio Activity

Recent volatility gave us the opportunity to initiate several new investments in Q2, including long positions in HCA Healthcare, First Republic Bank and SS&C Technologies. New short positions included Consolidated Edison and CONMED Corporation.

HCA is a best-in-class operator of acute care hospitals and other health care facilities, including outpatient surgery centers. It has a strong market presence in highly attractive geographies with growing populations and low unemployment, such as Texas and Florida, which leads to a favorable payor mix. We are further attracted to its strong management team that has a stellar track record of deploying capital, and the founding family continues to own almost a quarter of the business. We initiated a position after HCA reported Q1 earnings — it reduced full year guidance due to increased labor costs and lower-than-expected acuity among COVID admissions, dampening near-term investor sentiment.

We have prior experience with First Republic Bank, which is a high-quality regional bank with a multi-decade track record of generating strong shareholder returns. It has a large, bi-coastal presence with a heavy concentration in San Francisco and growing presence in New York and Boston. We like the company's unique franchise that focuses on providing excellent, high-touch service to its high-net-worth client base, and we believe First Republic is well-positioned to continue to grow its wealth management business.

The broader market selloff gave us an opportunity to initiate a holding in SS&C at what appears to us an attractive discount to intrinsic value. SS&C sells a variety of software/services that support the operations and business processes of investment firms, brokerages and other financial institutions. With a business model focused primarily on recurring revenue, SS&C's business lines collectively have a very high client retention rate. Further, a cost-conscious management team focused on continuous operating improvements and achieving greater scale has resulted in a highly cash generative organization. The management team has also proven to be a good allocator of capital, adding value for shareholders.

Share prices of utility ConEd had appreciated significantly recently, reflecting expectations of significantly improved regulatory environment in New York State as well as higher growth expectations for the company. We believe current share prices do not appropriately reflect the regulatory risk inherent in ConEd's service territory, giving us an opportunity to initiate a short position at what appears to us an attractive premium over intrinsic value.

We believe the market is overly optimistic about the growth prospects of medical device manufacturer CONMED, which is primarily dependent on two product lines contributing about a quarter of the company's revenues. The company has a good management team and is decently cash generative, but one of the products it relies on for growth faces high risk of commoditization and the other seems unlikely to experience inflecting growth based on where it is in its lifecycle.

ESAB Corp and Enovis Corporation are both new long names in the portfolio, but familiar to us through our prior long holding in Colfax Corporation, a provider of orthopedic solutions including braces and reconstructive joint products as well as welding equipment and supplies. Early in Q2, Colfax completed a planned split — its fabrication technology business becoming ESAB and the medical technology business reorganized as Enovis. ESAB has removed Russia from its guidance for 2022, and we continue to hold both, believing the two new companies are in an excellent position to leverage their business systems to continuously improve operations over time and engage in value-creating acquisitions in their respective industries.

As mentioned, Colfax Corp is no longer a long name in the portfolio, having completed its split and reorganized. We exited long positions in apparel and footwear company V.F. Corporation and global life insurance company MetLife to reallocate to higher conviction names. We covered our short position in Westinghouse Air Brake Technologies (Wabtec), provider of industrial transportation services, as the market price approached our estimate of intrinsic value. We also covered our short position in used vehicle retailer CarMax as the price was approaching our estimate of intrinsic value and there were more attractive opportunities available.

Market Outlook

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

That 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. However, a moderation of inflation, along with the selloff in financial markets, rising mortgage rates, and other factors that may slow broader demand could cause the Fed to act less aggressively than it otherwise would have.

Russia's invasion of Ukraine has disrupted the flow of exports from these countries, impacting 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 broader equity market valuations have fallen toward historical averages and created some investment opportunities in the process, we do not view the market as glaringly cheap. From current levels, equity market returns over the next five years are still 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 (%)

Alphabet, Inc. (Cl A)	3.7	Long	First Republic Bank	1.3	Long
American International Group, Inc.	3.3	Long	Freeport-McMoRan, Inc.	1.2	Long
Avis Budget Group, Inc.	(0.6)	Short	HCA Healthcare, Inc.	1.5	Long
Best Buy Co., Inc.	(0.5)	Short	Meta Platforms, Inc. (Cl A)	3.6	Long
Cisco Systems, Inc.	(1.0)	Short	Microsoft Corp.	2.7	Long
CONMED Corp.	(0.4)	Short	Penumbra, Inc.	(0.5)	Short
Consolidated Edison, Inc.	(0.7)	Short	Robert Half International, Inc.	(1.2)	Short
Enovis Corp.	1.0	Long	SS&C Technologies Holdings, Inc.	1.3	Long
ESAB Corp.	1.1	Long	Walt Disney Co.	2.2	Long

Period and Annualized Total Returns (%)

	Since Inception (30 Jun 2000)	20Y	15Y	10Y	5Y	3Y	1Y	YTD	2Q22	Expense Ratio (%) Gross	Expense Ratio (%) Net[1,2]
Class I (DHLSX)	6.51	6.69	4.75	7.22	4.89	4.66	-4.07	-8.96	-9.02	1.66	1.65
Russell 1000 Index	6.59	9.21	8.51	12.82	11.00	10.17	-13.04	-20.94	-16.67	—	—
60%/40% Blended Index	4.81	6.23	5.65	8.03	7.31	6.70	-7.62	-12.87	-10.14	—	—
Russell 1000 Value Index	7.14	7.86	6.10	10.50	7.17	6.87	-6.82	-12.86	-12.21	—	—

[1] 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.

[2] 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 Diamond Hill as of 30 June 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.

Index data source: Bloomberg Index Services Limited. See diamond-hill.com/disclosures for a full copy of the disclaimer.

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