DIAMOND HILL

INVESTED IN THE LONG RUN

Long-Short Fund

As of 30 Sep 2022

Market Commentary

US stocks closed the quarter down -4.5% (as measured by the Russell 3000 Index), bringing year-to-date losses to -24% and leaving stocks on track for their worst year since the 2008 financial crisis. While hope springs eternal for easing pricing pressures, latest data indicated inflation remained high at 8.2% in September.

The current market environment is interesting as it has evolved from the acceleration in inflation, which concerned us starting back in 2020. The pandemic relieved a near-term trend in rising prices, but the subsequent economic recovery served to accelerate cyclical inflationary pressures. The response by the Federal Reserve was, at first, quite timid but has since become aggressive — too aggressive in our opinion. Most leading indicators of inflation, except wage inflation, are pointing to a meaningful decline in inflationary pressures. However, the Fed remains determined to continue raising interest rates at a very rapid pace, presumably until reported inflation data is more in line with its long-term targets. Since most inflation data are lagging indicators and Fed tightening impacts the economy with a meaningful delay, we run the risk of a significant economic slowdown caused by an overly restrictive central bank.

As we reflect on this tightening cycle and what it means for investors, we are struck by the relative strength of US financial institutions, particularly in comparison to past tightening cycles. There have been no major financial stresses or calamities. That said, we are concerned about international stresses as the incredible strength of the dollar combined with rising European energy costs may cause meaningful dislocations overseas. Perhaps economic pressures abroad will eventually cause the Fed to relax its strict approach. Fortunately, the current lack of stress in the US reflects the strengthened balance sheets of US financial institutions and the improved asset quality compared to past cycles. We believe this should alleviate the severity of any economic slowdown, but paradoxically it may make it more difficult to quickly slow the economy, assuming that is the Fed's goal.

Finally, we think it is important to emphasize that the magnitude of the recent market selloff has historically been associated with meaningful investment opportunities for long-term investors. To better enable us to understand the long-term opportunity we looked at historical data since 1960. Over the prior 62 years, there have been 17 selloffs of 19% or more. The data shows purchasing the market after a 19% decline provides five-year annual returns approximately 200 basis points on average better than the historical average. This historical data is reassuring for investors maintaining a long-term perspective.

In summary, the market selloff has been painful, but at this point, we believe the majority of the decline is likely behind us. Inflation is likely peaking while the financial system remains sound, however corporate earnings are likely to decline somewhat over the coming year. So while near term pressures may persist, our expectation is that five years from now we will look back at this period and realize it was a great opportunity for long-term investors who successfully identify businesses being mispriced by the market — that is why we consistently focus on a five-year time horizon. A short-term perspective too often causes investors to focus only on risk during times of market volatility. However, a five-year focus allows us to see the opportunities available, which have only multiplied with the decline in prices.

Team

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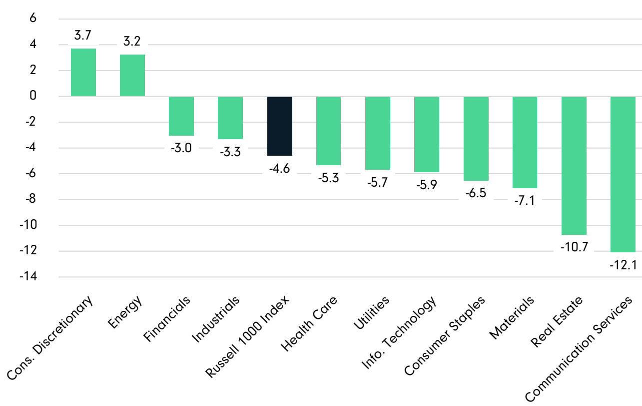
3Q22 Russell 1000 Index Sector Returns (%)



Source: FactSet, as of 30 Sep 2022.

Performance Discussion

The portfolio trailed the Russell 1000 Index and the blended benchmark (60% Russell 1000 Index/40% Bloomberg US Treasury Bills 1-3 Month Index) in Q3, though it remains ahead of both on a relative basis year-to-date. Our short book fell less than the Russell 1000 Index though still added positively to returns. Our long book trailed the index, hindered primarily by weakness among our consumer discretionary holdings, as well as our communication services exposure. Conversely, our lack of exposure to real estate was a positive, as was relative strength among our consumer staples holdings.

On an individual holdings' basis, top contributors to return in Q3 included short positions in MultiPlan Corp, WD-40 Company and United Parcel Service (UPS). MultiPlan is a healthcare services business providing out-of-network cost management solutions to healthcare payors. In our view, MultiPlan was a compelling short opportunity due to a combination of a high valuation and several fundamental risk factors, including a high degree of customer concentration, rising regulatory risk and high leverage limiting its ability to seek strategic alternatives. In Q3, its share price reacted negatively after disclosing that one of its largest customers was renewing its contract on terms less favorable for MultiPlan — which was in line with our thesis. With the share price subsequently trading below our estimate of intrinsic value, we chose to cover the short position.

WD-40 markets a range of maintenance products, and homecare and cleaning products. We believe investors have unrealistic expectations about the company's ability to grow its revenue base enough to justify its valuation, and the company is likely to be less resilient as COVID-related tailwinds to its business subside. In Q3, shares of WD-40 traded down on a weak earnings report that showed falling revenues as the company is also challenged by cost pressures.

UPS is the world's largest package deliverer, operating globally. The company and its share price had benefited from pandemic-related spikes in shipping demand while supply was constrained (grounding of airlines and their associated space), leading to increased pricing power. Our view is such conditions will not persist as the environment normalizes. In Q3, UPS reported weak results and a decline in volume in its US domestic business, pressuring the share price.

Other top contributors included our long position in HCA Healthcare and our short position in Waters Corporation. Healthcare facilities operator HCA outperformed low expectations as it reported results showing some of its cost pressures were easing. In Q3, life science tools company Waters reported solid revenue growth but weak margin expansion, pressuring shares. Our view is the company, with already industry-leading margins, will struggle to drive additional margin expansion.

Bottom contributors to return were all from our long book, including Alphabet, Fidelity National Information Services (FIS) and SS&C Technologies Holdings. Shares of media and technology giant Alphabet underperformed as quarterly results showed weaker-than-expected earnings and revenue amid concerns of a weakening macroeconomic environment. Longer term, we maintain conviction in the company's ability to innovate, execute acquisitions well and navigate the growing shift of search and advertising dollars to mobile devices.

Shares of payment and bank technology provider FIS were weak on geopolitical and economic uncertainty. FIS is seeing softness in UK revenues (approximately 15% of its merchant segment), experiencing wage inflation in Brazil and India, and is feeling headwinds from the interest-rate backdrop due to acquisition leverage. Under the leadership of a new CFO, expectations going into 2023 have been reset and FIS reiterated its intention to return excess cash flow to shareholders through share buybacks. We continue to believe FIS is well positioned to grow organically, or via acquisition, over the long term.

SS&C is the world's largest hedge fund and private equity administrator. It reported a mixed quarter, with near-term margins impacted by higher labor costs. With approximately 90% of its business involved in capital markets, it has faced a challenging selling environment this year. We continue to like the long-term prospects of the business and believe the price for SS&C's current earnings power remains inexpensive today.

Other bottom contributors included our long positions in Comcast Corporation and Wolverine World Wide. Cable company Comcast reported underwhelming quarterly results showing disappointing broadband subscriber growth amid increased competition from fixed wireless, though Comcast's churn remains near all-time lows. Footwear and apparel company Wolverine World Wide is coping with cost pressures and greater-than-anticipated promotional activity amid a more uncertain macro environment. In addition, consumer spending concerns weighed on investor sentiment toward companies selling more discretionary goods.

Portfolio Activity

New positions initiated in Q3 included Ciena Corporation (long), AMN Healthcare Services (short), CBIZ Inc (short), Asana (short) and Palomar (short). Ciena is a leading optical networking equipment company. It is currently challenged by supply chain issues, but looking forward, we believe Ciena is well positioned to benefit from several trends driving demand for optical networking components and stands to win share from competitors like Huawei.

AMN Healthcare Services provides workforce solutions and staffing services at healthcare facilities. An unstable healthcare employment environment is driving pricing and volume growth for contract labor, which we believe is unsustainable

CBIZ is a national accounting and consulting firm serving primarily small and mid-sized businesses. We believe the market is incorrectly extrapolating CBIZ's very strong fundamentals over the last approximately two years driven by what we perceive to be an exceptionally favorable operating environment for professional services firms. We believe valuations should contract as the company's operating performance eventually reverts to more normalized levels.

Work management software company Asana has, in our view, a relatively undifferentiated and discretionary software product within a software category that will likely be meaningfully smaller than anticipated. Additionally, Asana's operating losses continue to widen as its revenues have begun decelerating.

Palomar is an insurer that has specialized in residential and commercial earthquake insurance and is in the process of diversifying into other business lines. We believe the underlying economics of the business will prove far more challenging than is reflected in the market valuation. We also believe the business model is dependent on unrealistically favorable assumptions about normalized reinsurance pricing.

As mentioned, we covered our short in MultiPlan as shares traded below our estimate of intrinsic value and the risk-reward no longer appeared favorable. We also covered our short position in Ziff Davis, a digital media and internet company. A period of underperformance had share prices trading below our estimate of intrinsic value. We continue to believe that Ziff Davis's core business is unattractive and could reinstate the short position should the stock again trade at a meaningful premium to our estimate of intrinsic value.

Market Outlook

As the US emerged from the pandemic, a sharp economic rebound, along with unprecedented fiscal and monetary stimulus, an uptick in wage growth and instances of supply/demand tightness, drove inflation to levels not seen in decades. In response, the Fed has aggressively tightened monetary policy and remains vocal about its commitment to rein in inflation, even if it must accept some economic pain to do so.

While the Fed continues to tighten monetary policy, 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. We've already seen a moderation in real GDP since its peak in Q4 2021. And while corporate earnings have been rising, a near-term economic slowdown and other factors like a strong US dollar could put pressure on corporate earnings going forward.

This year's decline in equity markets has brought valuations back around historical averages and has created investment opportunities for valuation-disciplined investors in the process. 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.

Period and Annualized Total Returns (%)

	Since Inception (30 Jun 2000)	20Y	15Y	10Y	5Y	3Y	1Y	YTD	3Q22	Expense Ratio (%) Gross	Expense Ratio (%) Net[1,2]
Class I (DHLSX)	6.18	7.45	4.19	6.09	3.88	2.36	-10.18	-13.74	-5.25	1.66	1.65
Russell 1000 Index	6.28	9.97	8.03	11.60	9.00	7.95	-17.22	-24.59	-4.61	—	—
60%/40% Blended Index	4.64	6.67	5.36	7.37	6.21	5.47	-9.98	-14.95	-2.38	—	—
Russell 1000 Value Index	6.78	8.67	5.71	9.17	5.29	4.36	-11.36	-17.75	-5.62	—	—

Click here for holdings as of 30 September 2022.

[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 September 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