DIAMOND HILL

INVESTED IN THE LONG RUN

International Fund

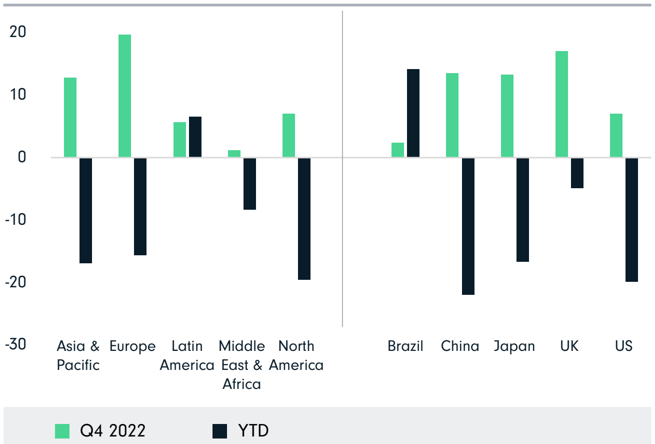
As of 31 Dec 2022

Market Commentary

Global stocks bounced more than 9% (in USD terms as measured by the MSCI ACWI Index) in the final quarter of 2022, bringing year-to-date losses to -18% to conclude stocks' worst year since the 2008 financial crisis. Given the strength in the US dollar relative to global currencies in 2022, USD-based investors experienced a greater decline as global stocks fell -15.6% in local terms. Emerging markets and developed markets both advanced just under 10% in Q4 (in USD terms); for the full year, developed markets posted -18% declines versus emerging markets, which collectively fell -20%.

In Latin America, Brazilian stocks gained a little over 2% in Q4, while stocks in Mexico rose 12%. In Asia Pacific, equities in several markets posted double-digit gains in the final quarter. In Japan, stocks rose 13%; in China, they rose 13%; and in Hong Kong and South Korea, stocks advanced 18%. In Europe, German stocks were up 24%, France posted gains of 22% and stocks in the UK were up 17%.

Exhibit 1 — Q4 and YTD Total Returns for Major Markets (USD) (%)



Source: FactSet, as of 31 Dec 2022.

Team

Krishna Mohanraj, CFA
Portfolio Manager

In the US, stocks were up almost 7% for the quarter. Market action in Q4, and in much of 2022, seemed heavily predicated on investors' reading of the Fed tea leaves — with any sign there may soon be reason for easing often accompanied by a market rally. Though December's inflation reading — which, at 7.1% year over year, was the coolest it's been since December 2021 — may have offered reason for such optimism, Fed Chairman Jerome Powell has not indicated he foresees rate cuts in 2023, nor have the major global central bank heads, including the European Central Bank's Christine Lagarde. On the contrary: Rates are expected to rise, albeit at a slower pace, in 2023.

Inflation, high energy prices and supply-chain challenges continued to cloud the economic environment in Europe. During the fourth quarter, central banks in the UK, eurozone and Switzerland all increased interest rates by 50 basis points. Eurozone inflation eased in November to 10.1%, a small decrease from 10.4% in October. Consumer confidence in the eurozone, however, increased for the third month in a row, as energy prices modestly declined. The European Central Bank reiterated its commitment to increasing rates as inflation remains high and is expected to stay elevated for some time. The Bank of England stated that it believes the UK is already in a recession that could last for a while. By many measures (employment, manufacturing, corporate profit growth, etc.), several major global economies seem healthy — but central banks' determination to wrangle inflation could result in (or even require) overtightening and prompt recessions in the year ahead. Ideally, relative economic health will make any such recessions both short-lived and shallow.

From a sector perspective, all sectors in the MSCI ACWI ex USA Index posted double-digit gains in Q4, with the materials and industrials sectors leading the way, both up 17%. The financials and health care sectors followed closely behind with 16% and 15% gains, respectively. Sectors that did not advance as strongly included the consumer staples and real estate sectors, both of which advanced 10%. For the full year, energy stocks around the globe were the strongest performers, advancing over 12%, and represented the only sector to post positive returns. After energy, the financials and materials sectors held up well on a relative basis, falling -5% and -9%, respectively. All other sectors posted double-digit declines, the weakest of which were the technology, consumer discretionary and communication services sectors — all posting losses in excess of -20%.

While the market environment can best be described as uncertain, with bouts of volatility, 2022's disappointing market returns have broadened the opportunity set for long term-focused investors able to identify compelling investments. Our dedicated focus on a five-year time horizon allows us to see beyond short-term volatility — both economic and market — and help position our clients to capitalize on dislocations like those introduced by 2022.

Performance Discussion

Our portfolio outpaced the MSCI ACWI ex USA Index in Q4 by a decent margin due in part to the outperformance of our holdings in Canada, India, the UK and China. From a sector perspective, we benefited from strength of our holdings in the financials, consumer discretionary, consumer staples and materials sectors. Partially offsetting was the underperformance of our holdings in the health care and energy sectors.

For the full calendar year, the portfolio held up better than the index but still experienced double-digit declines as global equity markets came under pressure due to the volatility and uncertainty created by Russia's war against Ukraine and shifting global macroeconomic conditions. For the full year, the relative strength of our holdings in Canada, Israel and Germany was beneficial, as was our underweight to China and the fact that we did not have any exposure to Russia. Conversely, our holdings in the UK underperformed those in the index, hampering relative results. From a sector perspective for the year, we benefited from the relative strength of our holdings in the technology, consumer discretionary and financials sectors, while our holdings in the communication services and energy sectors detracted from relative performance. Our underweight to the energy sector also worked against us given it was the only sector to post positive results for the year.

On an individual holdings basis, top contributors to return in Q4 included Fairfax Financial, Ashmore Group and Freeport-McMoRan. Fairfax Financial is a Canadian financial holding company based in Toronto that provides property and casualty insurance, reinsurance and investment management services. In Q4, the company reported strong operating results highlighted by premium growth, good underwriting margins and improving investment income.

Ashmore Group is a large British investment manager dedicated to investing in emerging markets. While there were no significant fundamental results to report, we believe Ashmore's shares advanced in Q4 on improved sentiment in emerging markets, a potential peak in US inflation and rate hikes, along with a decline in the US dollar.

Freeport-McMoRan is the world's largest producer of molybdenum, is a major copper producer and operates the world's largest gold mine in Indonesia. The company's share price advanced in Q4 reflecting a rebound in copper prices, driven by the recognition that copper inventories are low relative to historical norms. We believe the company continues to have meaningful price and volume leverage in a copper constrained world.

Dino Polska and Safran were also among our top contributors in Q4. Polish grocery store operator Dino Polska continues to execute its store rollout plan and at the same time is benefitting from favorable near-term macro conditions such as consumer trade-down trends, as food inflation continues to tick higher. Its business has also experienced a slight uptick in demand from refugees to Poland fleeing neighboring Ukraine. While execution has been strong lately and the multiple is expanding, the current stock price still does not reflect longer-term growth prospects and we continue to view shares as attractive.

Safran is a French multinational company that designs, develops and manufactures aircraft engines, rocket engines as well as various aerospace and defense-related equipment or their components. The company has benefitted from greater deliveries in narrow body engines, with short haul air travel beginning to recover.

Among our weakest performers in Q4 was Canadian pharmaceutical company Aurinia. Its shares pulled back somewhat sharply in Q4 due to concerns that a generic competitor challenged its intellectual property and subpar commercialization of its new product. We continue to hold our position but are monitoring these developments carefully.

Also among our bottom contributors were Spotify, Energy Recovery, Walt Disney and Canadian Natural Resources. Sweden-based audio streaming and media services provider Spotify continues to be impacted by rising interest rates and a stronger US dollar, each of which have negatively impacted the stock price. In looking at fundamental developments, the company continues to perform better than expected — importantly, the number of users continues to compound at a +20% annualized pace, and core music unit level returns continue to expand despite noise from discretionary non-core growth investments. Our long-term valuation assumptions incorporate a normalized interest rate environment, and as the stock price has come down, our conviction levels have risen as the company consistently executes well.

Energy Recovery makes the world's most efficient pressure exchangers that are difficult to replicate. In Q4, management provided softer revenue and margin drivers for 2022 and 2023 largely due to project timing. We continue to like Energy Recovery's dominant market share in the desalination end-market, which could see meaningful secular growth over the next several decades, and we believe the stock price does not fully reflect the company's long-term revenue growth potential.

Global media and entertainment company Walt Disney reported a weak quarter, driven by higher direct-to-consumer (D2C) losses, a more rapid decline in traditional media networks and lower-than-expected parks margins. Following the quarter, CEO Bob Chapek departed the company and was replaced by former CEO Bob Iger. We view Iger's return to the CEO role positively in the near term, as we have greater confidence in his ability to improve the creative culture, achieve D2C profitability and navigate upcoming strategic decisions.

Canadian Natural Resources, an oil and natural gas company based in Calgary, was a new addition to the portfolio in Q4. It's the largest oil/gas company in Canada and has exhibited a strong track record through multiple cycles. Management focuses on cost-control, maintaining a strong balance sheet, taking a long-term view, and growing opportunistically via M&A during times of market weakness. The company also boasts a strong commitment to shareholder returns as evidenced by 23 consecutive years of paying dividends — a meaningful achievement in a volatile industry. We believe we were able to purchase shares at an attractive discount to our estimate of intrinsic value.

Portfolio Activity

The market volatility and broad selloff has enabled us to seek out new opportunities as well as add to positions where we have the highest conviction as prices become more attractive. In addition to Canadian Natural Resources, we identified two additional companies in the Canadian energy space that we found attractive over the long term and added to the portfolio.

The first is Cenovus Energy, an integrated oil company based in Calgary with operations in the Canadian oil sands but also a growing refining exposure in the US. We are interested in Cenovus due in large part to the significant opportunities it has to improve margins and gain scale after the transformative acquisition of Husky Energy in 2021. This acquisition increased its pipeline access and gave it ownership of multiple new refineries, among many other things. It's not a turnaround per se, but we do believe the market underappreciates the improvement the company should be able to demonstrate independent of oil price movements in the next two to three years, and beyond.

The other addition is Imperial Oil, a Canadian oil/gas company that is majority-owned (approximately 70%) by Exxon Mobil. It is the largest Canadian oil refiner with roughly 23% of Canadian refining capacity and has a strong track record of operational improvements and smart capital allocation. Imperial has repurchased 65% of its shares outstanding over the last three decades and increased its dividend every year for 27 years. Given various government/industry constraints, we believe it is highly unlikely that new refinery capacity will come online in Canada and the transition to electric vehicles will take more time than many think, thus allowing Imperial to continue generating good cash flows over the next 5-10 years.

From a sale perspective, we exited our position in luxury retailer LVMH as its share price reached our estimate of intrinsic value. We also exited our positions in telecom services providers BT Group and IHS Holding in favor of more attractive opportunities.

Market Outlook

As an investor in international markets, there has been no lack of excitement and opportunity given the volatile environment. As price-conscious investors, we like to buy good businesses when they're on sale. In 2022, we had a year in which the market provided a double discount for overseas investors. The first discount is in the form of more attractive valuations relative to those in the US and the second discount is from currency movements. If you look at key currency pairs versus the US dollar, they're trading at unusual lows. While we don't know how long this double discount will last, we have been excited to take advantage of this anomaly.

As we look forward, we always try to think about where the puck is going, not where it is today. Our investment team is nimble — we can go anywhere across geographies, across market caps, and we invest for the long term. Two areas that we are spending more time in are India and Latin America. India, in our view, is one of the most exciting places to invest for the long term — demographics are excellent, with a young, internet savvy population; GDP is projected to grow at the fastest rate in the world; and infrastructure investment is expected to drive growth across a variety of sectors.

We've also been spending time researching businesses in Latin America, in countries such as Mexico, Brazil, Chile, Colombia and Peru. Despite the macro-related headlines (e.g., hyperinflation), there are a lot of solid businesses in these countries with long histories trading at attractive valuations simply due to headline risk. As valuation-disciplined investors, we tend to see opportunity when headline risks are high while other investors fear the worst. For example, when Mexican President Andres Manuel Lopez Obrador (ALMO) took over, investors began to flee on political concerns. But with patience, deep research and a long-term investment horizon aiding our perspective, we were able to buy some well-entrenched companies at good prices. Eventually, the reality ended up being more business friendly than most had feared. This is a good example of the types of opportunities that we aim to uncover in various parts of the world.

As we move forward into 2023, we will continue to focus on where the puck is going and use any additional market weakness and volatility to our advantage to buy good businesses at attractive valuations. As always, we remain committed to achieving value-added results for our clients, and we believe we can achieve better-than-market returns over the next five years through active portfolio management.

Period and Annualized Total Returns (%)	Since Inception (30 Dec 2016)	5Y	3Y	1Y	YTD	4Q22	Expense Ratio (%)
Class I (DHIIX)	7.01	2.80	1.34	-13.51	-13.51	17.20	0.84
MSCI ACWI ex USA Index	4.85	0.88	0.07	-16.00	-16.00	14.28	—

Click here for holdings as of 31 December 2022.

Risk disclosure: International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods, tax policies, political systems and higher transaction costs. These risks are typically greater in emerging markets. Small- and mid-capitalization issues tend to be more volatile and less liquid than large-capitalization issues.

The views expressed are those of Diamond Hill as of 31 December 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.

The quoted performance for the Fund reflects the past performance of Diamond Hill International Fund L.P. (the "International Partnership"), a private fund managed with full investment authority by the fund's Adviser. The Fund is managed in all material respects in a manner equivalent to the management of the predecessor unregistered fund. The performance of the International Partnership has been restated to reflect the net expenses and maximum applicable sales charge of the fund for its initial years of investment operations. The International Partnership was not registered under the Investment Company Act of 1940 and therefore was not subject to certain investment restrictions imposed by the 1940 Act. If the International Partnership had been registered under the 1940 Act, its performance may have been adversely affected. Performance is measured from 30 December 2016, the inception of the International Partnership and is not the performance of the fund. The assets of the International Partnership were converted, based on their value on 28 June 2019, into assets of the fund. The International Partnership's past performance is not necessarily an indication of how the fund will perform in the future either before or after taxes.

Fund holdings subject to change without notice.

Index data source: MSCI, Inc. 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