

DIAMOND HILL

INVESTED IN THE LONG RUN

International Fund

As of 31 Dec 2023

Market Commentary

Markets were mostly positive in Q4 2023, concluding the year in the black across most major indices, with the notable exception of China, which was down for the quarter and the year. Global stocks rose roughly +11% in Q4 (as measured by the MSCI ACWI Index), bringing 2023 calendar-year returns to over +22%. US dollar-based returns were slightly higher than local returns as the USD weakened somewhat during the quarter relative to major global currencies. Developed markets outpaced emerging markets in Q4, rising more than +11% versus just shy of +8%, respectively, and bringing 2023 calendar-year totals to +23% versus +10%, respectively.

From a sector perspective, technology stocks were up most in Q4 (+20%), though every sector turned in a positive quarter. Utilities (+14%), materials (+13%), industrials (+13%), real estate (+11%) and financials (+10%) all delivered double-digit returns, while energy (+2%), communication services (+5%) and health care (+5%) brought up the rear. For the calendar year, industrials were up the most, rising +23%, with financials (+16%) and energy (+15%) just behind. Consumer staples was the year's slowest gainer, rising shy of +5%. Meanwhile, despite a nicely positive Q4 predicated on investors' seemingly broad conclusion global rate hikes are in the rearview mirror, real estate also only rose modestly in 2023, +5%.

Latin American markets led the way from a regional perspective, rising nearly +18% on the back of widespread strength, including Peru (+28%), Mexico (+19%), Brazil (+18%) and Colombia (+16%). North American markets (+12%) and Europe (+11%) were up more modestly, with Poland (+38%), Sweden (+21%), the Netherlands (+20%), Hungary (+17%) and Portugal (+15%) delivering particularly strong returns. Major economies like the US (+12%), Germany (+13%), France (+10%) and the UK (+7%) rose more modestly but

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were nicely positive nonetheless. Asian markets were more mixed, delivering an overall +8% return for the quarter but with returns running the gamut from China in the red (-4%), to Korea (+15%), Taiwan (+17%), Australia (+15%) and New Zealand (+15%) all up solidly. The Middle East, part of which remains mired in war as Israel and Hamas continue fighting, was up the least, rising +7% in Q4 and led by Egypt (+23%), South Africa (+13%) and Saudi Arabia (+9%).

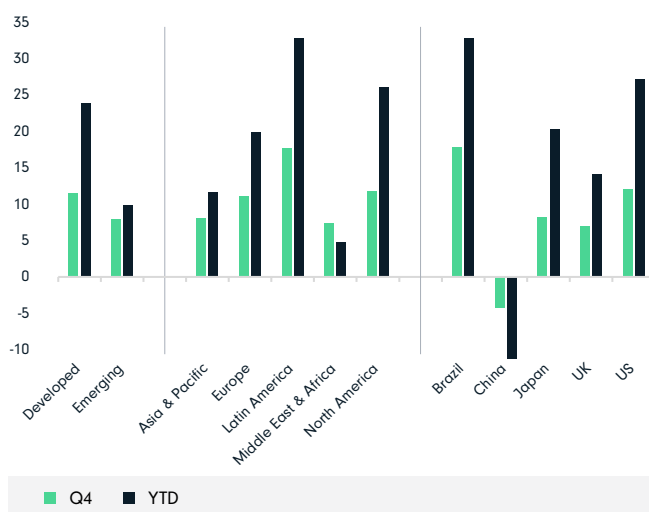
These positive returns came against a macroeconomic backdrop, the major headline of which was global monetary policy – particularly in the developed world, where US Federal Reserve chief Jerome Powell indicated rate hikes were likely at an end and 2024 may even bring some cuts. However, this announcement seemed to lead the US down a slightly different path from the other major economies, with European Central Bank president Christine Lagarde and UK Bank of England governor Andrew Bailey striking more muted notes, indicating the ECB and BOE would remain vigilant, even as they held rates amid moderating inflation.

Further complicating matters is a still-mixed macroeconomic backdrop in many countries – across many European economies and the US, inflation, while having moderated from a year ago, remains elevated; GDP growth has been generally tepid, even if positive; manufacturing activity has moderated or declined; retail sales are sluggish in many places. Meanwhile, China's economy remains pressured – its government is struggling to sufficiently spur activity to lift it from the doldrums, which helped drag its market down

nearly another -4% in Q4 and -11% for the year. And Japan faces ongoing questions regarding how (perhaps whether) it will wind down its years-long ultra-loose monetary policy and how (and, likewise, perhaps whether) it will affect meaningful corporate governance change.

Most of 2023's major macro-related questions remain unanswered – and all persist against a fraught geopolitical backdrop that currently includes two major hot conflicts and growing tensions in other areas, including between China and Taiwan. However, the investing environment is never certain – on the contrary, uncertainty often contributes to investors' ability to identify and capitalize on compelling investing opportunities. As we start another year, we believe this environment is a positive one for savvy non-US investors who are willing and able to do the research necessary to identify high-quality companies trading at attractive valuation discounts.

Exhibit 1 – 4Q23 Total Returns for Major Markets (USD) (%)



Source: FactSet, as of 31 Dec 2023.

Performance Discussion

While positive in Q4, our portfolio modestly trailed the MSCI ACWI ex-USA Index but outperformed for the calendar year. Relative weakness in Q4 was tied primarily to our Japan holdings (Astellas Pharma, in particular). Our lack of exposure to Australia also posed a modest headwind. Conversely, our European holdings were additive to relative performance, especially in Poland and the UK. From a sector perspective, our underweight exposure to the technology sector posed a relative headwind, while our consumer staples, industrials and financials holdings outperformed, benefiting relative performance.

On an individual holdings basis, our top contributors in Q4 included Spotify Technology and Dino Polska. Swedish digital music-streaming services provider Spotify is beginning to turn the corner from growth to monetization – bolstered by its announcement during the quarter of a new round of substantial cost cuts. We have been pleased with Spotify's speed in executing its pivot to monetization and its willingness and ability to address the cost base to that end. We believe shares remain undervalued relative to the company's intrinsic value and its potential to continue monetizing its vast and still-growing user base.

Shares of Polish supermarkets operator Dino Polska benefited from signs inflation may be topping out – a positive for the company from a cost perspective but also because it potentially allows Dino Polska to resume opening new stores, which is its main growth driver. Management has reiterated its new store target assumptions for 2023-2024 and has resumed making purchases in the company's land bank account – possibly signaling internal plans to accelerate store openings moving forward.

Other top Q4 contributors included Samsung Electronics, Assa Abloy and Ashmore Group. Consumer electronics manufacturer Samsung outperformed as the memory market showed signs of stabilizing, and memory chip prices increased after declining for several quarters. Moderating macroeconomic fears – especially about the US market – also likely boosted shares in the quarter. Swedish door lock manufacturer Assa Abloy is benefiting from normalizing steel prices along with increased prices – a combination that is generating strong margins but which we recognize is not necessarily sustainable indefinitely. We are closely monitoring the outlook from here. UK-based emerging markets debt manager Ashmore Group benefited from the Fed's announcement it would pause rate hikes, which is broadly viewed as a positive for emerging markets debt.

Among our bottom Q4 individual contributors were Astellas Pharma and Ubisoft Entertainment. Shares of Japanese pharmaceuticals company Astellas Pharma were pressured as two of its new drugs early in their launch phases experienced some setbacks: The company's new drug to treat hot flashes is off to a slower-than-anticipated start, while its drug to treat blindness is encountering some regulatory uncertainty. However, we maintain our conviction in the company's pipeline and believe its shares trade at a meaningful discount to intrinsic value.

French video game publisher Ubisoft Entertainment has not yet launched most of its new releases, which has weighed on shares. Further, the relatively low engagement scores following the recent Avatar launch have likely weighed on sentiment and, in turn, pressured shares. We believe the company is a high-quality operator with the potential to innovate for the future and are remaining patient for now.

Other bottom individual contributors in Q4 included Alibaba Group Holding, Energy Recovery and Cenovus Energy. Chinese internet commerce and services provider Alibaba announced the cancellation of its potential listing or spin-off of its cloud business, which weighed on sentiment. Fundamentally, the company continues improving profitability, shrinking losses in loss-making units, generating higher free cash flow and beginning to pay a dividend – all of which lend us conviction in our position. Energy Recovery manufactures energy recovery devices used in industrial processes involving high-pressure fluids or gases pumping. Shares declined in Q4 as the company's board abruptly replaced the CEO, creating uncertainty. However, we believe our thesis and the company's fundamentals remain intact.

Shares of Canada-based oil and gas exploration and production company Cenovus Energy were pressured in Q4 despite initial signs its downstream operations are improving – as lower oil prices broadly impacted the energy sector. We exited our position and redeployed the proceeds into better-positioned Canadian energy producers.

Portfolio Activity

In addition to Cenovus Energy, we eliminated doValue, First Quantum Minerals and Freeport-McMoRan during Q4. doValue manages non-performing loans, unlikely to pay, early arrears and performing loans for banks and investors in Spain, Portugal, Greece, Cyprus and Italy. We exited our position due to limited visibility into its contracts pipeline and the departure of its CEO, among other challenges. Canada-based metals and mining company First Quantum Minerals faces growing challenges tied to protests in Panama, which have shut down its mine. We sold our shares in First Quantum as well as copper-focused mining company Freeport-McMoRan to upgrade our capital into opportunities with more compelling risk/reward profiles.

We initiated three new positions in Q4, including Glencore, Mitsubishi Corporation and UCB. Switzerland-based metals and mining company Glencore is well-positioned for the uncertainty surrounding the energy transition as it is one of the world's largest copper producers and a large coal producer. It is able to take the currently healthy cash flows from its coal business and invest them in copper and other future-facing metals. However, the cash flows from its coal business also provide an attractive hedge if and as the energy transition takes longer than expected. Glencore's management team is opportunistic when it comes to capital allocation, repurchasing shares at attractive valuations, divesting non-core assets and making thoughtful acquisitions. With an improved balance sheet, Glencore is well-positioned to weather a variety of environments. We believe the outlook over the next several years is positive and capitalized on an opportunity to initiate a position in a high-quality operator.

Mitsubishi Corporation is the largest Japanese trading house and has a wide variety of businesses, including salmon, convenience stores, metallurgical coal, copper and Southeast Asia auto distribution, among others. The company is improving its capital allocation, with an increased focus on asset efficiency, non-core asset divestitures and improved return on equity and shareholder returns – operating improvements which we believe are not adequately reflected in the current price. Further, management is actively divesting businesses that are not meeting the company's return on invested capital hurdle, increasing share repurchases and adding management bonus incentive systems, all of which are rare in Japan and lend us confidence about the company's trajectory from here. Though Mitsubishi has fairly heavy cyclical exposure via its metallurgical coal and copper businesses, it is also expanding into less cyclical areas like food, convenience stores and auto distribution, which should dampen potential volatility in the company's operating results, depending on the macroeconomic environment from here.

Belgium-based UCB is a biopharmaceuticals company focused primarily on neurological and immunological diseases – areas in which it is a global leader. Its newly launched autoimmune drug is poorly understood by the market, which has weighed on shares. However, we believe the company is a high-quality, undervalued operator with meaningful potential over the long term and accordingly capitalized on a weak share price to initiate a position at an attractive discount to our estimate of intrinsic value.

Market Outlook

As we enter 2024, we are positive on the overarching environment – significant opacity aside. Our enthusiasm stems partly from precisely the uncertain backdrop, which, especially in non-US markets, can give well-equipped stock-pickers a compelling chance to identify those investing opportunities most investors (particularly passive ones) may miss. Consider the major current questions: What will happen in China, particularly to the Chinese consumer? Will the Chinese government be able to turn around the challenges in its real estate sector? How and to what extent will state interference increase in the economy and markets?

In Japan, is the current wave of concern about corporate governance for real? What will the Bank of Japan do, particularly if inflation slows or the economy shows signs of stagnating? How will Europe’s economy shift its energy grid? What will come of the auto industry in Germany as electric vehicles continue gaining popularity and countries like China develop an edge in that space? Will the UK face secular stagnation? And, of course, looming in the background is the question of Taiwan and whether China will take aggressive action, possibly even military action. And these are just a few of the questions we could list – meanwhile, war continues between Ukraine and Russia, Israel and Hamas.

The reality is there are always big questions. But when short-term capital struggles for answers, which can lead to wide market swings, investors with a long-term mindset can capitalize on the resulting opportunities. Particularly those investors who can travel extensively – as we were again able to do in 2023, gleaned much about local markets and learning about companies that generally fly under many non-US investors’ radars. All of these are reasons non-US investors should be inclined to focus on individual businesses instead of maintaining passive exposure via an index. Given the magnitude of the potential opportunities ahead, we are enthused for what 2024 might bring – while simultaneously maintaining our vigilance – and are prepared to pivot depending on how events unfold.

Period and Annualized Total Returns (%)	Since Inception (30 Dec 2016)	5Y	3Y	1Y	YTD	4Q23	Expense Ratio (%)
Class I (DHIX)	8.53	8.72	4.82	18.12	18.12	9.61	0.86
MSCI ACWI ex USA Index	6.33	7.08	1.55	15.62	15.62	9.75	–

[Click here](#) for holdings as of 31 December 2023.

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 2023 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