DIAMOND HILL

INVESTED IN THE LONG RUN

International Fund

As of 30 Jun 2024

Market Commentary

International equity returns were mixed in Q2 2024, with some market segments posting strong returns while others were weaker. The best-performing stocks came from areas that could benefit from the growth of artificial intelligence (AI) or country markets with a combination of low valuations and improving economic data. There were many notable elections in Q2, and the results of several drove local equity markets' performance depending on the perceived market-friendliness of the winning candidate or party. Additionally, some countries experienced stagnating economic recoveries or restrictive central bank policies that caused weakness.

The return of the MSCI ACWI ex-US Index was slightly positive in the quarter, up 0.96%. From a regional perspective, Asia Pacific ex-Japan had the most positive return in the quarter, driven by China, India and companies in the semiconductor supply chain. Japan lagged the return of the international benchmark as higher interest rates and currency weakness weighed on US dollar returns. The performance of European equity markets was mixed. The United Kingdom was positive due to attractive valuations and an improving economic picture. France was a notable laggard as stagnating economic growth and surprising results in European Parliamentary elections caused concern.

As has been expected for several months, monetary policy among major central banks diverged in Q2 as the European Central Bank cut rates while the Bank of England and the Federal Reserve held. Further, Fed chair Jerome Powell maintained his position that US rates are likely to remain higher for longer, signaling that there is expected to be only one rate cut before the end of the calendar year. Given the US's economic resilience — exemplified by resilient employment numbers — and inflation's ongoing stickiness, Powell's commitment is not particularly surprising. What naturally remains to be seen is how durable the economic data prove to be in the coming months.

Team

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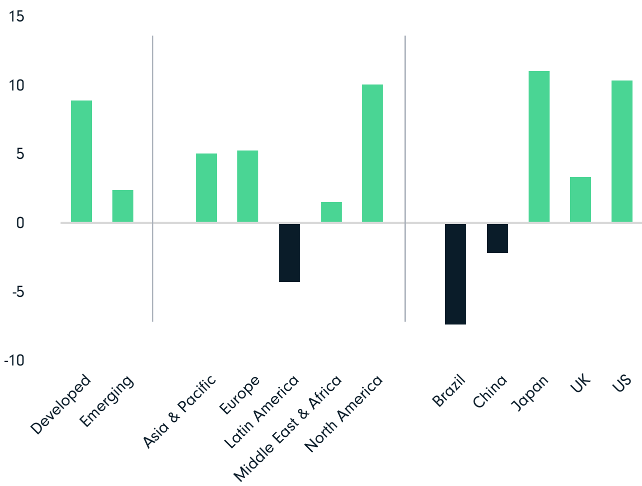
Meanwhile, in the wake of finally exiting its protracted negative interest-rate regime, the Japanese Central Bank (JCB) faces ongoing challenges maintaining the yen's value, which has continued sliding relative to the dollar as US interest rates remain high. Though inflation in Japan has finally ticked up, which should give the JCB room to contemplate rate hikes, domestic consumer sentiment has been fragile as a weak yen has translated into high import and fuel costs. The JCB undoubtedly faces a delicate balancing act in the months and quarters ahead as it seeks to finally end decades of economic malaise.

Similarly, the ongoing global monetary policy and macroeconomic mix continues complicating the picture for a Chinese government which is seeking to boost its economy while facing growing trade tensions with Western countries — especially the US and the European Union, both of which have been ratcheting up restrictions related to electric vehicles and technology more broadly. Positively, Chinese GDP grew 5.3% year over year in Q1 — beating expectations and incrementally better than Q4's 5.2%. However, much of the growth has been attributable to the economy's supply side, which the government has provided ample support, while the demand side and the country's consumers continue struggling to recover from a deep real estate crisis that has crimped wealth and led many to cut back on spending.

It's been hard to miss the recent performance of AI-related stocks — which has contributed to an increasingly narrow market in the US and has also driven some of the best performing areas of international markets, albeit without the concentration of US indices. We will be selective in how or if we add exposure to this area and strictly adhere to our time-tested, fundamental approach to identifying high-quality, underappreciated companies.

Exhibit 1 – 2Q24 Total Returns for Major Markets (USD) (%)



Source: FactSet, As of 30 Jun 2024.

Performance Discussion

Our portfolio's underperformance compared to the MSCI ACWI ex-US Index in Q2 can be attributed to a mix of factors as there was not one common theme that drove performance. From a country perspective, relative weakness came from holdings in the United Kingdom and Netherlands, while relative strength came from holdings in France and Belgium. Regarding sectors, our holdings in industrials and energy were a source of relative weakness. Sectors with the most positive relative contribution were communication services and consumer discretionary.

On an individual holdings basis, the most significant negative contributors were Evotec, Walmex and Mitsubishi Corp. Evotec is a Germany-based drug research, discovery and manufacturing services company. Evetoc underperformed in the quarter after lowering short-term profit expectations amidst continued weakness in the biotech funding environment. Despite the share price weakness in the quarter, we remain confident in our thesis that the current share price does not reflect the value of Evotec's multiple business lines. Additionally, the company is a leader in using AI in drug discovery, which could create additional upside for the stock.

Share price weakness in Mexican retailer Walmex in Q2 was primarily due to the results of elections in Mexico, which were broadly seen as unfavorable for Mexican consumers. Despite negative perception about the new administration's impact on Mexican consumption, we continue to believe the long-term setup for Walmex's business remains attractive. Its position as the largest retailer in Mexico allows the company to use its scale to gain market share from smaller, less sophisticated competition. Additionally, the Mexican economy is well-positioned over the long term to take advantage of the nearshoring of supply chains to the US.

Mitsubishi is a multinational Japanese trading company with operations spanning various industries. The company has seen strong share price performance year-to-date but issued guidance slightly below estimates for the remainder of the year, which weighed on performance. The Japanese yen was also weak in the quarter, hurting returns for dollar-based investors. We continue to believe our thesis of improving asset efficiency and better capital allocation remains underappreciated in the stock. Also, the weakness in the yen is an incremental positive for the company, given that a significant portion of its revenues are generated outside of Japan.

Our top contributors in Q2 were Taiwan Semiconductor, Spotify and Tencent. Taiwan Semiconductor is the largest microchip fabrication company in the world. The company has substantial competitive advantages in digital chip manufacturing and possesses a broad portfolio of semiconductor processes serving various end markets. Shares of Taiwan Semiconductor outperformed due to strong financial performance and increasing optimism about the growth of AI. We continue to believe the quality of the business and growth of artificial intelligence and 5G smartphones is not fully reflected in the share price. Additionally, while we acknowledge the geopolitical concerns associated with a Tawain-based company, we believe the stock's valuation is attractive relative to other AI-exposed companies around the world.

Spotify is a Swedish-headquartered global online streaming service and marketplace platform that distributes primarily audio content. Users sign up for an ad-supported or paid monthly subscription and get access to the company's industry-leading content library, which includes songs, podcasts and audiobooks. Positive performance was driven by an announcement of price increases in its core markets and a new tiered pricing structure that should allow further monetization of its user base and better margins over the long term.

Tencent Holdings provides various internet, mobile and communication services in China. The company owns dominant ecosystems in messaging (WeChat), social networking (QQ and Qzone), payment services, gaming (the #1 global online gaming company) and a mobile app store. After weakness in its gaming business in the recent past, the company reported better-than-expected results and gave more promising forward guidance, which suggests gaming recovery is in sight. We continue to believe Tencent's ability to monetize this large installed user base over the long term is not reflected in the current stock price.

Portfolio Activity

While the MSCI ACWI ex-US Index was positive for the third consecutive quarter, and valuations have increased in some parts of the world, we continue to find stocks at attractive prices relative to the intrinsic value of their business. In Q2 2024, we added four new positions while exiting six positions.

We initiated positions in CNH Industrial, Whitehaven Coal, Arvind and Gerresheimer. CNH Industrial is a global capital goods company headquartered in the United Kingdom. The company specializes in equipment and services for the agriculture and construction industries. CNH is most known through its brands, Case and New Holland. In 2022, the company underwent a restructuring when it sold off its commercial and power train business to focus on its core competencies. The current management team has a solid execution track record and has embarked on a turnaround plan to improve distribution and operational inefficiencies that plagued the company over the last decade. Additionally, the stock is priced at a significant discount to peers and the cumulative value of its underlying businesses.

Whitehaven Coal is an Australian coal mining company. Whitehaven owns and operates thermal and metallurgical coal (met coal) mines throughout Australia, concentrating on the highest quality types of coal. Historically, the company has focused on thermal coal, but recently acquired assets are expected to transform the company's revenue base into mostly met coal. After liabilities for the acquisition are paid off over the next three years, the company will have a significant increase in free cash flow that is not reflected in the current stock price. Demand for coal, specifically from Southeast Asia, will likely be stable or increase going forward. Conversely, the supply of new coal mines is expected to remain stable or decrease over the long term, creating a favorable demand/supply imbalance. We initiated a position in the stock given the favorable demand/supply conditions in coal and the deep discount to the stock's intrinsic value.

Arvind is an Indian textile manufacturer specializing in producing fabrics and garments. Currently, most company revenues are derived from manufacturing fabrics for global clothing brands, which are then exported to other countries to assemble finished garments. However, the company has shifted its focus to its own finished garments business and Advanced Materials Division (AMD), which are less capital-intensive and more profitable than the fabrics business. As global brands focus on vertically integrated supply chains less dependent on one country, Arvind's location and ability to produce fabrics and finished garments will benefit. Additionally, Arvind has exclusive licenses from global chemical companies for compounds used in producing specialized professional uniforms such as firefighting suits, construction apparel and military uniforms. These licenses, plus a cost advantage relative to competitors in AMD, give us confidence that Arvind is well-positioned to grow this business over the long term. Hence, we initiated a position in the stock as the current valuation does not reflect the business mix shift to less capital-intensive and higher-margin areas.

Gerresheimer is a German health care company specializing in pharmaceutical packaging. The company produces vials, syringes, pens, injectors and plastics to deliver therapies to patients. Pharmaceutical packing is designed and implemented during the early stages of drug development and accompanies drugs throughout the approval process. Hence, high-quality, consistent packaging is critical to drug development and approval. Gerresheimer has exposure to some of the fastest-growing pharmaceutical categories, such as biologics, biosimilars and GLP-1s. Additionally, the company has made significant investments in premium products and services, which should improve its margins. We initiated a position in the stock as we believe improving growth and profitability are not yet reflected in the current price.

Pertaining to sales in the quarter, we exited two positions — Check Point Technologies and Formento Economico Mexicano (FEMSA) — after the stocks approached or surpassed our estimates of intrinsic value. Additionally, we exited Vitesco Technologies as Schaeffler Group, a German automotive parts company, finalized its acquisition of the company at a premium to its pre-acquisition announcement share price. Late in the quarter, we sold our shares in three other companies — Astellas Pharma, Energy Recovery and Diageo — primarily to realize tax losses and to fund higher conviction opportunities.

Market Outlook

2024 is shaping up to be a pivotal year marked by significant disruptions across various sectors and countries, presenting challenges and opportunities for investors. AI advancements, particularly in the US, are creating substantial buzz. International companies essential in providing the necessary tools and hardware, especially chip makers, are poised to benefit immensely. The ripple effects of this AI revolution include a massive investment cycle and a potential global materials shortage due to skyrocketing demand.

The pharmaceutical sector appears to have made significant strides in addressing obesity. This breakthrough will likely have far-reaching implications across the health care value chain, and global consumer staple companies may see considerable impacts as consumer health dynamics shift.

The auto industry is undergoing a massive transformation, primarily driven by the transition to electric vehicles (EVs) and the rise of Chinese automakers. The industry's strategic importance to global markets cannot be overstated, and the upcoming years are expected to be highly competitive, described by Stellantis' CEO as "Darwinian." This sector's disruption is likely to have significant geopolitical and trade implications.

Elections, central bank policies and geopolitics have already had significant impacts worldwide in 2024, which will likely continue in the year's second half. Elections in India, Mexico and Taiwan were notable, and markets quickly digested the results. The year's second half will see significant elections in the UK, France and the US. While forecasting an election's outcome is difficult, investors can be sure they are unpredictable and create opportunities for long-term investors.

Various factors influence central bank policy, and we have seen a mix of stimulative and restrictive policies worldwide. The Bank of Japan raised rates for the first time in 17 years, while the People's Bank of China was stimulative to boost growth. Many major developed markets' central banks must now weigh cutting rates to stimulate their economic growth versus the risk of easing policy too quickly, which increases inflationary pressures.

Lastly, geopolitical pressures remain high, with two significant conflicts continuing in Europe and the Middle East. In either case, a resolution or easing of tensions will likely be positive for equity markets.

In conclusion, 2024's landscape of disruption offers a rich terrain for long-term, value-oriented investors. Our primary focus remains maintaining our long-term perspective, valuing businesses on their future cash flows and generating 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	2Q24	Expense Ratio (%)
Class I (DHIIX)	8.82	7.29	2.16	10.54	6.29	0.23	0.85
MSCI ACWI ex USA Index	6.68	5.55	0.46	11.62	5.69	0.96	–

Click here for holdings as of 30 June 2024.

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 30 June 2024 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