DIAMOND HILL

INVESTED IN THE LONG RUN

International Fund

As of 30 Sep 2024

Market Commentary

International markets performed strongly in Q3, with the MSCI ACWI ex-US Index up 8.06%, outpacing many broad-based US indices. Most regional indices worldwide were positive for the quarter, with Asian regional indices leading the way. China was a standout performer in Asia as a late-quarter rally boosted stocks in that country. After a brief mid-quarter sell-off, Japanese equities also ended the quarter in positive territory. European equities, including stocks in the United Kingdom, were also broadly positive.

The long-awaited shift of the interest-rate cycle is here, with the Federal Reserve cutting US rates 50 basis points (bps) in September and signaling several more rate cuts are on the table. In the Fed's wake, several other major global central banks cut rates, too, including the European Central Bank, Swiss National Bank and, notably, the People's Bank of China, which not only lowered rates but banks' reserve requirements (more on China momentarily). The Bank of Japan, which has only recently lifted the country out of its long-standing negative rates regime, increased rates from 0.1% to 0.25% in late July as it attempts to balance nascent inflation after years of deflation, a markedly weaker yen and lackluster economic growth.

The apparent end of the higher interest-rate cycle helped spur markets higher in September, as did some noteworthy policy shifts in China, which has been struggling to lift its economy out of relative malaise since roughly the pandemic. Late in September, the government announced not only a raft of monetary policy shifts (including the aforementioned rate and reserve requirement cuts), but also a forthcoming fiscal policy package aimed at spurring domestic demand — which surprised investors and seemingly boosted sentiment significantly, as China's market made a meaningful jump thereafter. However, details of the fiscal stimulus are yet to be announced, so whether this proves a true game-changer, which finally lifts the country out of its property sector-induced swoon or not, remains to be seen.

Ample sources of extreme uncertainty remain — including the ongoing (and potentially significantly escalating) hot wars in the Middle East and between Russia and Ukraine. The newly announced longshoreman strike in the US could further snarl already troubled supply chains, which have yet to fully recover from pandemic-induced complications and have been beset by attacks in the Red Sea. Whether global central banks can achieve the proverbial soft landing remains to be seen — though markets seem fairly unconcerned about the likelihood of imminent economic slowdown — and of course, the US is on the cusp of what will undoubtedly be another highly contentious national election. Regardless, markets have continued climbing the wall of worry — and though valuations are particularly stretched in some sectors, we believe there are still attractive opportunities for diligent investors willing to do the rigorous, bottom-up research necessary to identify them.

Team

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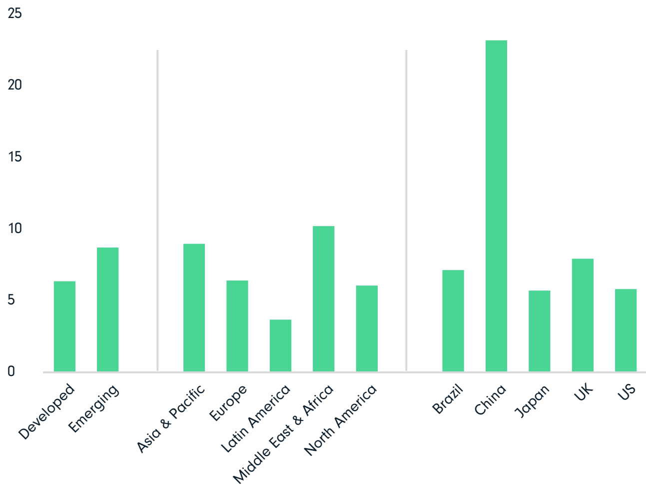
Exhibit 1 – 3Q24 Total Returns for Major Markets (USD) (%)



Source: FactSet, As of 30 Sep 2024.

Performance Discussion

Our portfolio's underperformance compared to the MSCI ACWI ex-US Index in Q3 can be mainly attributed to stock-specific factors. From a sector perspective, our holdings in financials, as well as our underweight to the sector, were the most prominent sources of relative weakness, while our holdings in industrials were the largest source of relative strength. Regarding countries, our holdings in Germany and Canada were sources of relative weakness. Countries with the most positive relative contribution were the United Kingdom and Finland.

On an individual holdings basis, the most significant negative contributors were Samsung Electronics, Gerresheimer and Fusion Finance. South Korean technology company Samsung Electronics declined as contract prices for memory dropped, driven by lower demand for PCs and consumer electronics. Despite the weakness in the quarter, our thesis for Samsung remains intact as we believe the stock price does not reflect the growth prospects of high-bandwidth memory chips used in artificial intelligence applications and the company's strong competitive and financial position.

Gerresheimer is a German health care company specializing in pharmaceutical packaging with exposure to some of the fastest-growing areas of pharmaceuticals, such as biologics, biosimilars and GLP-1s. The stock underperformed primarily because company management lowered guidance for 2024 due to a factory shutdown in North Carolina after Hurricane Helene and lower-than-expected demand in its glass tubing business.

Fusion Finance is a non-banking financial institution in India that provides financial services to women entrepreneurs living in primarily rural areas. The stock underperformed after reporting weak results marked by high credit costs. The company proactively increased loan loss provisions on a portion of its loan book as it noted stress patterns in customer payments.

Our top contributors in Q3 were Tesco, Unilever and Alibaba. Tesco is a grocery and general merchandise retailer in the United Kingdom. The company reported solid financial and operating results as it continues to gain market share through aggressive pricing and uses its free cash flow to buy back undervalued shares. Despite its share price strength, Tesco's stock valuation remains attractive given the company's dominant competitive position in grocery and stable business fundamentals.

Unilever is a global consumer goods company with a portfolio of brands and strong distribution in many of the fastest-growing parts of the world. Company management reiterated 2024 revenue guidance and increased margin expectations for the year. We believe these results are signs that the turnaround plan put in place by management several years ago is working and remains consistent with our thesis.

Chinese e-commerce company Alibaba outperformed after the Chinese government announced stimulus measures to boost growth in the Chinese economy. Hence, optimism about increased spending by Chinese consumers rose, and Alibaba's share price appreciated.

Portfolio Activity

While the MSCI ACWI ex-US Index has appreciated over 14% in 2024, we continue to find attractive opportunities in areas of the market that remain underappreciated. We added five new positions in the quarter, the stocks of Willis Towers Watson, Allfunds Group, Arcos Dorados, Veolia Environment and Bolsa Mexicana de Valores (Group BMV).

Willis Towers Watson is a multinational firm that provides professional services, including insurance brokerage, risk management, human capital consulting and benefits administration to clients across diverse sectors. It is globally diversified and has a client base that includes many large, established companies. In our view, the business's resilience is not reflected in the current valuation. Hence, we established a position in the stock. Revenue at the company is driven by fee income, and it maintains a healthy balance sheet, which should provide stability under various interest rates and economic environments.

Allfunds is the largest fund distribution platform in Europe. The company operates a marketplace connecting fund managers and retail investors, creating a more efficient route to market for fund managers and a wider selection of funds for retail investors. Historically, wealth management in Europe was a captive environment led by banks that would sell their clients a limited offering of funds. Regulators and wealth management clients are now pushing for a broader selection of investment options. Additionally, it can be costly for banks to build out a platform of investment options, and outsourcing this function to a third party like Allfunds is increasingly attractive. While Allfunds' business is experiencing these structural growth drivers, its valuation does not reflect its long-term growth prospects and the exchange-like nature of its business.

Arcos Dorados is the largest McDonald's franchisee in the world, operating over 2,000 restaurants primarily in Latin America and the Caribbean. The company benefits from McDonald's strong brand equity, efficient supply chain and proven business model while capitalizing on the growing middle class and increasing consumer spending in emerging markets. Arcos has consistently increased its market share in Brazil and other Latin American countries relative to competitors, and quick-service restaurants are still significantly underpenetrated in many Latin American countries. Economic volatility, uncertainty in some of its markets and a renegotiation of its franchise agreement with McDonald's have caused uncertainty and created an attractive risk/reward for us as long-term, intrinsic value investors.

Pertaining to sales, we exited six positions in the quarter. Swedish access solutions provider Assa Abloy and Canadian insurance company Fairfax Holdings were both exited after our thesis had played out, and their share prices appreciated to our estimates of intrinsic value. Given the healthy flow of new ideas in the quarter, four of our sales occurred to fund higher conviction opportunities elsewhere. We exited United Kingdom-based asset manager Ashmore Group, Indian microfinance lender Fusion Finance, French video games maker Ubisoft and Dutch multinational music corporation Universal Music Group to fund new ideas with more attractive risk/reward characteristics.

Market Outlook

Global monetary policy has been and will likely continue to be supportive after years of tightening, which could bode well for international equities. However, the pace of recovery remains uncertain in many regions, and there are risks that inflation may spike again, potentially undermining efforts to boost growth.

Many European economies are grappling with a tough combination of growth challenges, competitive threats, high energy costs, conflicting policy initiatives and debt burdens. The United Kingdom, France and Germany all have yet to return to the economic growth experienced before the COVID-19 pandemic, and with COVID-era stimulus having ended, a new economic direction is needed to maintain competitiveness with the US and China.

French President Macron has pushed for a more unified, efficient single-energy market, including low-carbon initiatives, and has criticized the fragmented state of industries such as telecommunications, chemicals and energy. Macron has advocated for higher R&D investment and more unified regulatory frameworks across sectors such as AI, steel and chemicals.

Germany, in particular, has been negatively impacted by high energy costs and international competition in industries like automobiles, where Chinese electric vehicles are taking market share from German auto companies. How France and Germany deal with competitive threats remains to be seen as Macron has begun to advocate for tariffs to protect industries. Germany is against tariffs as their auto companies are heavily reliant on foreign sales, which retaliatory tariffs could hurt. As some European countries begin to talk about how to reduce their debt levels, new tax proposals in the United Kingdom, France and Italy are risks that may be underappreciated, and we are monitoring how they could affect the profitability of companies operating in those countries.

China's outlook remains challenging despite policy initiatives that caused local equity markets to rally to finish the quarter. The Chinese economy has gone through a period of high savings rate and is still reliant on investments and exports. Rate cuts, housing support and a lending program for equities were all announced together in an effort to boost confidence. While this is all positive, it doesn't seem enough in our view. Consumer spending is still weak, and while Chinese equities remain cheap, it's difficult to foresee a significant turnaround without addressing deeper economic and consumer sentiment issues.

In Japan, we remain encouraged by corporate governance reform. While a new Prime Minister and an increase in interest rates made headlines in the quarter, corporate governance reform will be a more powerful driver of long-term returns. Companies embracing better capital allocation and enhanced shareholder value creation could unlock value for shareholders that hasn't been experienced for decades. We remain focused on companies that not only talk about change but also show action, and we can see evidence of their willingness to change.

Globally, geopolitical risks remain elevated. The conflict in Ukraine shows little sign of resolution, and tensions in the Middle East remain high, particularly with Israel's continued operations in neighboring territories and the potential for escalation with Iran. While these risks pose ongoing challenges, any surprise de-escalation in these conflict zones could boost market sentiment.

Despite these challenges, we remain committed to identifying attractive opportunities that have the potential to yield above-average returns over the next five years. Our primary focus is on achieving value-added results for our clients through active portfolio management, with a belief that we can outperform the market by maintaining our disciplined approach.

Period and Annualized Total Returns (%)	Since Inception (30 Dec 2016)	5Y	3Y	1Y	YTD	3Q24	Expense Ratio (%)
Class I (DHIIX)	9.30	8.64	6.40	23.13	12.34	5.69	0.85
MSCI ACWI ex USA Index	7.53	7.59	4.14	25.35	14.21	8.06	—

Click here for holdings as of 30 September 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 September 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