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Annual Report

DIAMOND HILL[®]

funds

December 31, 2009

SMALL CAP FUND

SMALL-MID CAP FUND

LARGE CAP FUND

SELECT FUND

LONG-SHORT FUND

FINANCIAL LONG-SHORT FUND

STRATEGIC INCOME FUND

Not FDIC Insured | May Lose Value | No Bank Guarantee

Invest With Us.

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CAUTIONARY STATEMENT

At Diamond Hill, we pledge that, “we will communicate with our clients about our investment performance in a manner that will allow them to properly assess whether we are deserving of their trust.” Our views and opinions regarding the investment prospects of our portfolio holdings and Funds are “forward looking statements” which may or may not be accurate over the long term. While we believe we have a reasonable basis for our opinions, actual results may differ materially from those we anticipate. Information provided in this report should not be considered a recommendation to purchase or sell any particular security.

You can identify forward looking statements by words like “believe,” “expect,” “anticipate,” or similar expressions when discussing prospects for particular portfolio holdings and/or one of the Funds. We cannot assure future results. You should not place undue reliance on forward-looking statements, which speak only as of the date of this report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events, or otherwise. This material is not authorized for distribution to prospective investors unless preceded or accompanied by a Prospectus. Please read the Prospectus carefully for a discussion of fees, expenses, and risks. Current performance may be lower or higher than that quoted herein. You may obtain a current copy of the Prospectus or more current performance information by calling 1-888-226-5595 or at Diamond Hill’s website (www.diamond-hill.com).

Letter to Shareholders

Dear Fellow Shareholders:

We are pleased to provide you with this year-end update for the Diamond Hill Funds. Our long-term focus has not changed. We continue to follow a proven intrinsic value methodology focused on absolute returns. We seek investment opportunities where the price-to-intrinsic value relationship provides an opportunity to earn an attractive rate of return over a five year period, while also providing a margin of safety.

Financial Markets

“*Unprecedented*” is the most frequently used word to describe what happened in the financial markets in 2009. After declining over 55% from the October 2007 peak, equity markets staged a remarkable recovery. The S&P 500 Index increased more than 60% from its March 2009 low, closing the year up 26.5%. The Russell 1000 and Russell 2000 Indexes increased 28.43% and 27.17%, respectively. With the possible exception of technology stocks around the turn of the century, this volatility in the broad stock market was unprecedented at least since the 1930s. The coordinated rescue effort by governments around the world to avert a global financial crisis was unprecedented, as was the level of U.S. fiscal and monetary stimulus enacted in 2009.

The year began with a brief rally in January, as investors reacted positively to new policy initiatives and support for the ailing financial sector. However, the markets soon reflected pessimism that the policy changes would be insufficient and recognition that financial sector risk remained high. In addition, corporate earnings reports were not only worse than expected, but also the quality was low and guidance for 2009 earnings fell dramatically. Consumer confidence readings were at the lowest recorded levels for the third consecutive month in February.

Initially driven by positive comments from financial giants Bank of America and JP Morgan Chase and from short covering, the market staged a second more significant rally in early March that would continue through most of the year. In April, economic data began to indicate a broad bottoming, with some significant improvement in key economic indicators, and 2009 first quarter earnings reports were better than expected, providing further fuel for the rally. Earnings continued to come in better than expected through the rest of the year, but primarily on the back of cost cutting, rather than revenue growth. Economic news was mixed in the third and fourth quarters. In October, the unemployment rate reached 10.2%, the highest level since 1983. Despite continued high levels of unemployment, the Conference Board of Consumer Confidence Index improved in December and retail sales posted their fourth consecutive monthly increase.

A key feature of the 2008/09 equity market decline was the indiscriminate selling of both high and low quality stocks. In contrast, the rally that began in March 2009 was initially driven by P/E multiple expansion in low quality stocks. Valuation dispersions were below normalized levels; implying investors could buy higher quality, stable companies with low earnings risk, strong franchises, dividend security, and a strong balance sheet at similar valuations as lower quality and more cyclical stocks. However, in November, we began to see a change in market leadership. Higher quality companies performed well, with the information technology and financial sectors losing some of their leadership. Valuation differences between high and low quality companies remain narrow, indicating the best value may still be in the higher quality companies.

We were very pleased with the absolute and relative performance of our equity funds for periods ended December 31, 2009. Not only did all equity funds post strong positive results in 2009, but they also outperformed their respective benchmarks. More importantly, Diamond Hill's Small Cap, Large Cap, Long-Short and Financial Long-Short Funds all exceeded their respective benchmark¹ returns over a five-year time period. Our Small-Mid Cap and Select Funds, which have been in existence for less than five years, have outperformed their benchmarks since inception. We remain focused on long-term performance and committed to our investment philosophy, which is rooted in the belief that market price and intrinsic value tend to converge over a reasonable period of time.

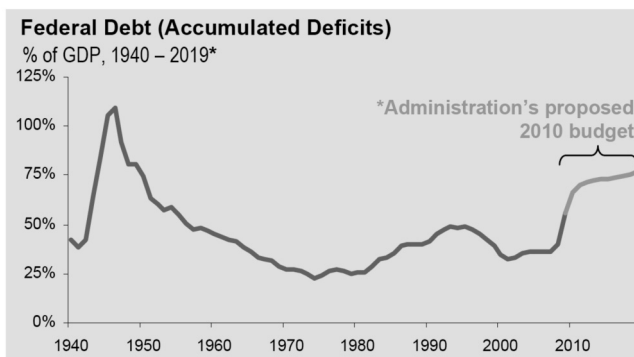
Portfolio Risk Management

Our job at Diamond Hill is to manage whatever set of risks the market presents, while seeking to achieve superior returns on an absolute basis over five year periods. During the 2007 – 2009 period of volatility, the market presented both risks and opportunities. We believe we successfully managed our portfolio risks by aggressively reevaluating our assumptions regarding the appropriate discount rate, or required rate of return, for each of our holdings and paying close attention to business and balance sheet risks. Importantly, our portfolio diversification limits are stated in absolute terms rather than relative to any benchmark, which is another form of risk control employed across all strategies. At the same time, we are not afraid to take advantage of especially attractive market opportunities created by investors mistaking short-term market volatility for true investment risk. The former is driven by emotion and in some cases has little relation to the underlying value of a company. For more details on this subject, see the Special Investment Letter “Managing Risk and What We Learned from the Crisis,” by Chris Welch, CFA, Portfolio Manager, on page 7 of this report.

Market Outlook

For now, the markets continue to benefit from fiscal and monetary stimulus. However, the cost associated with massive deficit spending and maintaining interest rates near zero for an extended period of time will present future challenges. We believe that over the next five years, the impact from the removal of fiscal and monetary stimulus currently supporting the economy is likely to be significant. The potential for a government pullback on spending programs, along with a rise in inflation and/or real interest rates due to the explosion in government borrowing could be problematic for the economy, as well as for the markets.

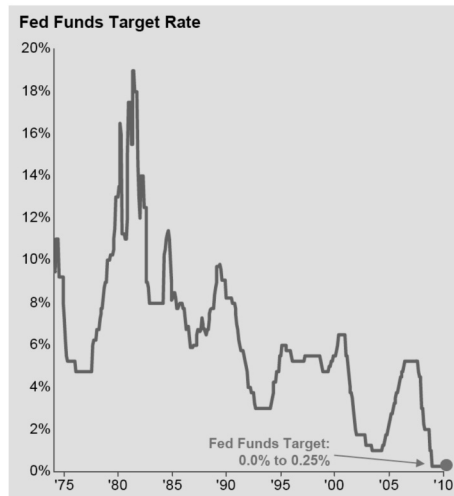
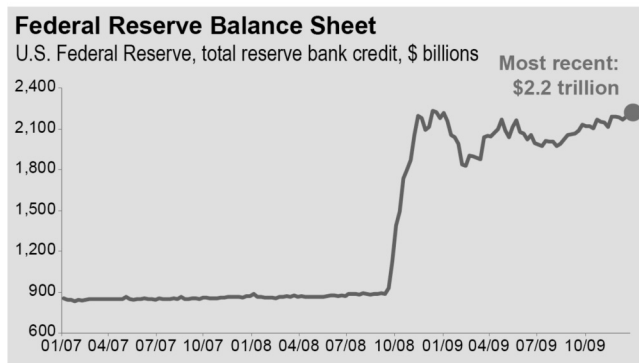
Significant Fiscal Stimulus...



Source: St. Louis Fed, Bureau of Economic Analysis, Office of Management and Budget, J.P. Morgan Asset Management. Data reflect most recently available as of 12/31/09.

Note: Years shown are fiscal years (Oct. 1 through Sep. 30). Bottom left chart displays federal debt in the hands of the public.

... and Significant Monetary Stimulus



Source: Federal Reserve, FactSet, J.P. Morgan Asset Management. Data are as of 12/31/09.

Given the market environment and rapid market appreciation, our expectation is for below average equity returns over the next five years. In the credit markets, the rebound in corporate profitability, higher net equity issuance and lower net debt issuance has led to an improvement in corporate credit quality. However, much of this improvement is already reflected in the prices of corporate bonds through the rapid tightening of credit spreads. On the margin, we have continued to add to more defensive sectors like consumer staples and healthcare, where we are finding attractive valuation opportunities. We continue to emphasize multi-national companies with strong brand franchises and worldwide competitive advantages. Our long-term secular thesis for energy remains intact, due to the continued tight conditions in worldwide supply and demand for oil.

As in the past, we will take advantage of opportunities that show disproportionate reward relative to the level of risk. We remain committed to our disciplined, intrinsic value investment philosophy, and we believe our approach to portfolio risk management will serve our clients well, regardless of the market environment.

Diamond Hill Capital Management, Inc.



R.H. Dillon, CFA
Chief Investment Officer

The views expressed are those of the portfolio manager as of December 31, 2009, are subject to change, and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. All data referenced are from sources deemed to be reliable but cannot be guaranteed. Securities and sectors referenced should not be construed as a solicitation or recommendation or be used as the sole basis for any investment decision.

¹ The referenced benchmark for the Long-Short Fund is the blended index, 50% Russell 1000 Index and 50% 3month T-bill.

The S&P 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. Standard and Poor's selects the companies for the index to widely represent the stock market based on market size, liquidity, and industry group representation. Indexes are unmanaged, do not incur fees, and cannot be invested in directly.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000[®] Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 90% of the U.S. market.

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000[®] Index representing approximately 8% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

Investors should consider the investment objectives, risks, and charges and expenses of the Diamond Hill Funds carefully before investing. This and other information about the Funds is in the prospectus, which can be obtained at www.diamond-hill.com. Read the prospectus carefully before you invest. 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. The Diamond Hill Funds are distributed by BHIL Distributors, Inc. (Member FINRA), an affiliated company. Investors may obtain a copy of the current prospectus at 888-226-5595 or www.diamond-hill.com. Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.

Mission Statement, Pledge and Fundamental Principles

Mission The mission of Diamond Hill is to serve our clients through a **disciplined intrinsic value-based approach** to investing, while maintaining a **long-term perspective**, and **aligning our interests** with those of our clients.

To successfully pursue our mission, we are:

COMMITTED to the Graham-Buffett investment philosophy, with goals (over 5-year rolling periods) to outperform benchmarks and our peers, and achieve absolute returns sufficient for risk of asset class.

DRIVEN by our conviction to create lasting value for clients and shareholders.

MOTIVATED through ownership of Diamond Hill funds and company stock.

Investment Philosophy At Diamond Hill, the investment philosophy, which is rooted in the teachings of Benjamin Graham and the methods of Warren Buffett, drives the investment process — not the opposite.

Most simply, we invest in a company when its market price is at a discount to our appraisal of the intrinsic value of the business (or at a premium for short positions).

There are four guiding principles to our investment philosophy:

- ◆ **Treat every investment as a partial ownership interest in that company**
- ◆ **Always invest with a margin of safety to ensure the protection of capital, as well as return on capital**
- ◆ **Possess a long-term investment temperament**
- ◆ **Recognize that market price and intrinsic value tend to converge over a reasonable period of time**

“Investment is most intelligent when it is most businesslike.”

— BENJAMIN GRAHAM

Pledge **Consistent with our mission & investment philosophy, we pledge the following to all of our clients:**

Our investment discipline is to assess the economics of the underlying business, its management, and the price that must be paid to own a piece of it. We seek to concentrate our investments in businesses that are available at prices below **intrinsic value** (above intrinsic value for short positions) and are managed or controlled by trustworthy and capable people. Benjamin Graham pioneered this discipline during the 1930s and many others have practiced it with great success ever since, most notably Warren Buffett.

We will communicate with our clients about our investment performance in a manner that will allow them to properly assess whether we are deserving of their **trust**.

Our **investment team** will be comprised of people with integrity, sound experience and education, in combination with a strong work ethic and independence of thought. Especially important is that each possesses the highest level of character, business ethics and professionalism.

Our employees will enjoy a **working environment** that supports professional and personal growth, thereby enhancing employee satisfaction, the productivity of the firm and the experience of our clients.

“Invest **With Us**” means we will invest the capital you entrust to us with the same care that we invest our own capital. To this end, Diamond Hill employees and affiliates are **significant investors** in the same portfolios in which our clients invest and are collectively the largest shareholders in the Diamond Hill Funds. In addition, all Diamond Hill employees are subject to a Code of Ethics, which states that all personal investments must be made in a Diamond Hill fund, unless approved by our Chief Compliance Officer.

Our fundamental investment principles

Valuation

Every share of stock has an intrinsic value that is independent of its current stock market price.

At any point in time, the stock market price may be either higher or lower than intrinsic value.

Over short periods of time, as evidenced by extreme stock market volatility, the stock market price is heavily influenced by the emotions of market participants, which are far more difficult to predict than intrinsic value. While stock market prices may experience extreme fluctuations on a particular day, we believe intrinsic value is far less volatile.

Over sufficiently long periods of time, five years and longer, the stock market price tends to converge with intrinsic value.

Calculating Intrinsic Value Estimate

We believe that we can determine a reasonable approximation of that intrinsic value in some cases.

That value can be determined if we have a reasonable basis for projecting the future cash flows of a business and use an appropriate discount rate.

In estimating intrinsic value, we use an interdisciplinary approach. Not only do we perform financial modeling including discounted cash flow, private market value, and leveraged buyout analyses, we draw from other areas we believe are relevant to our investment decision-making. These include economics, statistics and probability theory, politics, psychology, and consumer behavior.

In short, we do not want to exclude from our thinking anything that can help us forecast future cash flows, our most important as well as most difficult job.

The Diamond Hill investment process continually compares market price to our estimate of intrinsic value, which is updated over time as new information arises.

Suitable Investments

We only invest in a business when the stock market price is lower than our conservative assessment of per share intrinsic value (or higher than our assessment of per share intrinsic value for short positions).

We concentrate our investments in businesses whose per share intrinsic value is likely to grow.

To achieve this, we assess the underlying economics of the businesses in which we invest and the industries and markets in which they participate. We seek to invest in businesses that possess a competitive advantage and significant growth prospects as well as outstanding managers and employees.

Every business in which we invest is “handicapped” by its price. While we would prefer to own only great businesses with superior managers, there are very few businesses that satisfy those criteria and additionally are available at attractive prices. As a result, we may invest in less attractive businesses at more than attractive prices. Depending on the price that we pay, our returns from less than ideal businesses may be even better than our returns from ideal businesses.

Risk & Return

We intend to achieve our return from both the closing of the gap between our purchase price and intrinsic value and the growth in per share intrinsic value. For short positions, a growing intrinsic value may shorten the holding period.

We define risk as the permanent loss of capital. We manage risk by investing in companies selling at a discount (premium) to our estimate of intrinsic value, with a full understanding of the fundamental drivers of intrinsic value. In addition, we carefully consider business risks that could impact our estimate of intrinsic value. We regularly monitor and update our estimate of intrinsic value, adjusting for new information. If we are successful in accurately assessing intrinsic value, we will minimize the risk of loss and increase the return potential.

Our fundamental strategic income principles

Yield

Our primary goal is to generate a yield greater than the current rate of inflation without bearing undue credit or interest rate risk. However, we cannot guarantee any specific yield.

Approach

A flexible approach allows us to invest in both investment grade and non-investment grade corporate bonds as well as in preferred securities, real estate investment trusts, master limited partnerships, and closed end funds.

We can also invest in securities issued by the U.S. government and its agencies when conditions warrant.

Total Return

We balance our income objective with a focus on total return. Over the next five years, our objective is to earn equity-like returns in the income markets with lower year-to-year volatility and more importantly, a much lower risk of permanent loss of capital.

“You simply have to behave according to what is rational than according to what is fashionable.”

— WARREN BUFFETT

Special Investment Letter –

Managing Risk and What We Learned from the Crisis

With the possible exception of technology stocks around the turn of the century, the volatility we have seen in the broad stock market, and particularly in financial stocks, is unprecedented since at least the 1930s. The S&P 500 Index lost over 55% of its value from the October 2007 peak to the March 2009 trough. Over the same period, the S&P 500 Financials Index lost more than 80% of its value. Both indexes have rallied sharply from the market trough, with the broad S&P 500 Index up more than 60% from the bottom and the Financials Index gaining over 130% through December 31, 2009. These recoveries leave the indexes well short of their prior peaks, however. The S&P 500 Index would need to see an additional 40%+ gain to reach its former peak, while the S&P Financials Index would need to gain more than 160% to achieve new highs.

Our job at Diamond Hill is to manage whatever set of risks the market presents, while seeking to achieve superior returns on an absolute and relative basis over five year or longer time periods. The rest of this piece will discuss two of the most significant ways in which we attempted to manage recent market risks and opportunities, as well as some of the things we observed and learned through the downturn.

Discount Rate

An important part of the valuation process for stocks is setting the proper discount rate, or required rate of return, for each individual company. The value of any company is the sum of the discounted future cash flows. Forecasting the cash flows is the activity that generally receives the greatest attention, but the use of the proper discount rate is also a key piece of the puzzle. The discount rate represents the riskiness of the forecasted cash flows – higher risk activities require higher returns to justify an investment. Thus, the discount rate applied to the cash flows of Procter & Gamble Co. (PG) or McDonalds Corp. (MCD) should be much lower than the discount rate used for an investment in a small airline or mining company.

A company's balance sheet is also a factor in determining the appropriate discount rate for future cash flows. A firm with high levels of cash and no debt deserves a lower discount rate, all things equal, than one in the same business with roughly the same scale but having a balance sheet with high debt levels and little cash. The latter firm may be able to meet their debt payments under most economic scenarios. However, in a sharp downturn, the lack of cash flow necessary to cover debt payments may force the company to sell off assets at a low price or issue new equity at low prices to raise funds to meet debt payments. In either case, existing investors' equity ownership is diluted. The main point is that a weaker balance sheet, all things equal, raises the riskiness of future expected cash streams.

How did this impact Diamond Hill strategies during the recent downturn? We have always recognized the importance of setting appropriate discount rates and have always differentiated between companies with stronger and weaker balance sheets. We also focus on the longer-term risks of a business model. By focusing long-term, we avoid placing an artificially low discount rate on a cyclical business that may be achieving unsustainable near-term peak operating results. However, in this downturn we discovered that for some of our holdings, what we had considered to be conservative discount rates were not conservative enough to fully reflect the risk of dilutive capital raises and other balance sheet related moves, which reduced the future expected gains to equity holders. Some of this dilutive effect was centered on banks and other financial holdings, but it also extended to industrials, technology and several other areas of the market where the sharp downturn forced value-diluting actions in order to protect companies' viability. After experiencing such effects for a few of our holdings, we aggressively scoured the rest of our portfolios to make sure that we were fully incorporating appropriate discount rates for all our investments. In limited cases, we adjusted our discount rates. This adjustment did not necessarily lead to a change in our investment position – in some cases it simply led to a narrower, but still ample, margin of safety. We regularly review all the variables in our intrinsic value estimates and take action when warranted by any change in our estimates or market prices.

Price Volatility vs. Investment Risk

While we felt a need to reevaluate some of our discount rates, we observed many cases where we believed that other market participants were misreading the situation based on excess fear. This fear created some extremely attractive investment opportunities, as well as some short-term price volatility. However, in our opinion, the short-term price volatility did not always correspond equally with higher levels of long-term investment risk. To illustrate the difference between short-term price volatility and long-term investment risk, let's look at our investment in Juniper Networks, Inc. (JNPR).

Juniper Networks has a strong number two position in the router market, behind Cisco Systems, Inc. (CSCO). JNPR has achieved double-digit operating profit margins each year since 2003, excluding a goodwill impairment charge in 2006, and management has shown a strong commitment to balancing growth with cost control. As of Fall 2008, the company had built a fortress balance sheet, with \$2.5 billion in cash and investments, and no debt. In comparison, JNPR's market capitalization fell below \$10 billion in October 2008 and dipped under \$7 billion in March 2009.

The demand for Juniper's products relates to consumer and corporate Internet bandwidth usage. The growth in Internet video consumption is widely forecast to continue for many years, and that growth should further accelerate as high definition video becomes a larger portion of what is viewed online. While technological advances may lead to slower demand growth for JNPR's products versus overall bandwidth usage, in our opinion it seems unlikely that the company will fail to achieve at least a high-single-digit sales growth rate over the next 5+ years. Given JNPR's product position and continued innovation, our view is that the company's competitive position is unlikely to deteriorate significantly over the next 5 years.

Despite the advantages of a strong competitive position, a rock solid balance sheet and an industry with dependable longterm growth characteristics, Juniper's stock traded down aggressively with the rest of the market. JNPR fell from the mid-high \$30s in late 2007 to the mid-\$20s by September 2008, eventually declining to the low teens near the 2009 market trough. We initiated positions in multiple Diamond Hill strategies, as this quality company with favorable growth characteristics traded down to a level where we felt it was selling at a sizable discount to our estimate of intrinsic value.

When we made these purchases, we were aware that the fear of continued economic decline might further depress the price, and it did. Fortunately, realization of this risk also presented an opportunity for us to enhance our returns by adding to the position at even better prices. For example, we bought more shares in the Small-Mid Cap Fund after the price dropped 10% from our original purchase and again after the price dropped another 10%.

In this case, our views were eventually endorsed by the market. JNPR rallied strongly as the market rose, and we sold our shares in May 2009 when the price reached our intrinsic value estimate. We earned 35%-75% holding period returns on our purchases of JNPR. The stock now trades modestly above the levels at which we sold our positions, while our estimate of intrinsic value is little changed.

Managing Portfolio Risk

One lesson from the downturn is to take advantage of especially attractive opportunities on the infrequent occasions when they present themselves. In our view, these opportunities often arise due to investors mistaking short-term volatility for true investment risk. The former is driven by emotion and in some cases has little relation to the underlying value of companies, which equals the sum of discounted cash flows those companies will produce over time. At Diamond Hill, we define risk as the permanent loss of capital. Although future events could prove us wrong, we believe that Juniper Networks was one of numerous investment opportunities that the market presented during the downturn entailing significantly greater likelihood of short-term price volatility than true long-term investment risk. Unfortunately, we are finding fewer of these high-reward, low-risk opportunities in the current market environment.

A major part of our job at Diamond Hill is managing portfolio risk. We pay close attention to business and balance sheet risk to set appropriate discount rates for the companies we invest in, and we will continue to take advantage of opportunities that show disproportionate rewards relative to the level of risk. This approach has served our clients well in both up and down markets. We remain committed to our disciplined, intrinsic value investment philosophy, and we believe that our approach to portfolio risk management will serve our clients well in future market environments. We thank you for your continuing support and confidence.

Diamond Hill Investments



Christopher A. Welch, CFA
Portfolio Manager

The views expressed are those of the portfolio manager as of December 31, 2009, are subject to change, and may differ from the views of other portfolio managers of the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. All data referenced are from sources deemed to be reliable but cannot be guaranteed. Securities and sectors referenced should not be construed as a solicitation or recommendation or be used as the sole basis for any investment decision.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Standard and Poor's 500 Financials Index is a capitalization-weighted index, with 79 members.

Mentioned Securities and Respective Weights in the Diamond Hill Funds as of 12/31/09:

| | Small Cap Fund | Small-Mid Cap Fund | Large Cap Fund | Select Fund | Long-Short Fund | Financial Long-Short Fund | Strategic Income Fund |
|------|----------------|--------------------|----------------|-------------|-----------------|---------------------------|-----------------------|
| CSCO | 0.0% | 0.0% | 2.0% | 2.5% | 2.3% | 0.0% | 0.0% |
| JNPR | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| MCD | 0.0% | 0.0% | 1.9% | 2.5% | 2.0% | 0.0% | 0.0% |
| PG | 0.0% | 0.0% | 3.0% | 3.0% | 3.1% | 0.0% | 0.0% |

Investors should consider the investment objectives, risks, and charges and expenses of the Diamond Hill Funds carefully before investing. This and other information about the Funds is in the prospectus, which can be obtained at www.diamond-hill.com. Read the prospectus carefully before you invest. 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. The Diamond Hill Funds are distributed by BHIL Distributors, Inc. (Member FINRA), an affiliated company. Investors may obtain a copy of the current prospectus at 888-226-5595 or www.diamond-hill.com. Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.

Diamond Hill Small Cap Fund

Performance Update

Average Annual Total Returns as of December 31, 2009

| | One Year | Five Years | Since Inception (12/29/00) | Expense Ratio* |
|---|---------------|---------------|----------------------------------|-------------------|
| PERFORMANCE AT NAV <i>without sales charges</i> | | | | |
| Class A Shares | 28.92% | 2.10% | 10.61% | 1.41% |
| Class C Shares | 27.99% | 1.33% | 9.78% | 2.16% |
| Class I Shares | 29.43% | 2.48% | 10.84% | 1.02% |
| BENCHMARK | | | | |
| Russell 2000 Index | 27.17% | 0.51% | 4.26% | |
| PERFORMANCE AT POP <i>includes sales charges</i> | | | | |
| Class A Shares | 22.47% | 1.05% | 9.98% | |
| Class C Shares | 26.99% | 1.33% | 9.78% | |

Historical performance for Class C shares and Class I shares prior to their inception is based on the performance of Class A shares. Class C and Class I performance has been adjusted to reflect differences in sales charges and expenses between classes.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month end, please visit www.diamond-hill.com.

* Reflects the expense ratio as reported in the Summary Prospectus as amended October 1, 2009.

Portfolio Commentary



Thomas P. Schindler, CFA
Portfolio Manager

The Diamond Hill Small Cap Fund (Class A, without sales charge) returned 28.92% in 2009. This figure compares to a 27.17% return for the benchmark Russell 2000 Index. For the 5-year period ended 12/31/09, the Fund's return was 2.10%, annually, while the Russell 2000 Index returned 0.51%, annually, over the same period. Since-inception on 12/29/00, the Fund has returned 10.61%, annualized, compared to 4.26% for the Russell 2000 Index. While we are pleased with both the absolute and relative performance of the Fund since inception, we recognize that the strong performance in the first five years is responsible for attaining the satisfactory absolute result. While the past five years have been disappointing on an absolute basis, we are pleased to have outperformed on a relative basis both during the major downturn in 2008, as well as the strong recovery of 2009.



Christopher M. Bingaman, CFA
Assistant Portfolio Manager

During the year, holdings in the energy sector were the largest positive contributor to performance. Oil prices rebounded sharply after the steep decline that began in the middle of 2008, while natural gas ended the year slightly lower than it began, but the average price in 2009 was considerably lower than in 2008. Cimarex Energy Co. nearly doubled on the year and ended the year as the largest equity position in the Fund. Despite the natural gas price headwind, the company looks positioned for production growth from the Cana shale and has also benefitted from high natural gas liquids content, which are priced more in line with oil and currently allow more attractive well economics. Encore Acquisition Co., which has agreed to merge with Denbury Resources Inc., and Whiting Petroleum Corp. both benefitted from higher oil prices as they are in the early stages of developing their acreage in the Bakken through horizontal drilling. Berry Petroleum Co. nearly tripled on the year after being severely pressured in 2008. The company has diversified from its California heavy-oil roots, yet still remains leveraged to oil prices given its relatively high fixed cost structure. Also, because many of Berry's cost are driven by natural gas prices, it benefits when the oil to gas spread is wide as in 2009. Southwestern Energy Co. continues to exhibit very high production growth, as it continues to focus on the Fayetteville shale. Finally, during the



Christopher A. Welch, CFA
Assistant Portfolio Manager

course of the year, we sold two oil service holdings, Helmerich & Payne, Inc. and Lufkin Industries, Inc. after large increases in their respective stock prices.

For the year, the largest positive portfolio repositioning was the increase in the insurance holdings and the decrease in bank holdings within the financial sector. Assured Guaranty Ltd. and XL Capital Ltd. were both large successes, while the majority of our former small cap bank holdings have not recovered substantially, as have many of the larger cap banks and stocks of companies in other sectors that were under extreme distress in 2008 and early 2009. Financials are now the largest sector in the Fund. Banks were the largest detractors from performance in 2009 with First State Bancorp (New Mexico), Hanmi Financial Corp., Banner Corp., UCBH Holdings, Inc., and Imperial Capital Bancorp, Inc., all suffering losses before their sales. In addition, Huntington Bancshares, Inc., which we continue to hold, also was a large negative contributor.

While we held considerably less companies in the information technology, health care, and industrials sectors, when compared to the Russell 2000 Index, those we did own performed generally in line or better. Notable successes include BE Aerospace, Inc., KLA-Tencor Corp., Apogee Enterprises, Inc., Waters Corp., InVentiv Health, Inc., and Lifepoint Hospitals, Inc. Notable laggards included KHD Humboldt Wedag International Ltd., Res-Care, Inc., The Brink's Company, and Lincoln Electric Holdings Inc.

The largest negative portfolio repositioning was the premature sales of several consumer cyclical and one basic materials company that have recovered substantially, as the economy has regained more solid footing. These include American Greetings Corp., Penske Auto Group, Inc., Black&Decker Corp. (which has agreed to merge with Stanley Works), and Charming Shoppes, Inc. on the consumer side and Century Aluminum Co. on the materials side. As a result, we underperformed in our stock selection in those two sectors by a wide margin.

We will continue to balance risk and reward in our appraisal of individual company values and appreciate your ongoing support and look forward to continuing to work with you in the coming years.



Thomas P. Schindler, CFA
Portfolio Manager



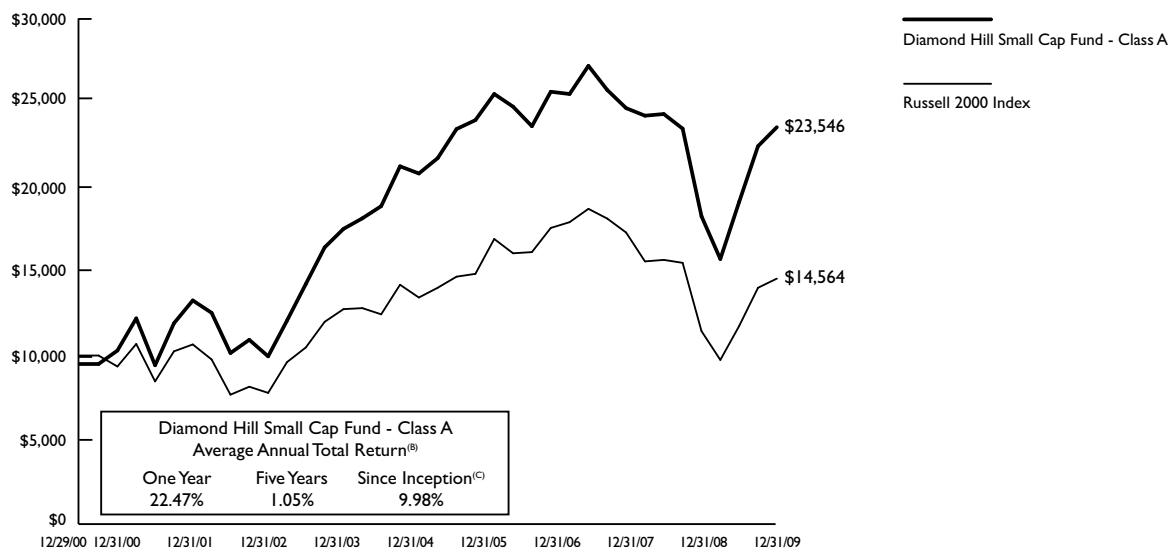
Christopher M. Bingaman, CFA
Assistant Portfolio Manager



Christopher A. Welch, CFA
Assistant Portfolio Manager

Growth of \$10,000

Comparison of the Change in Value of a \$10,000 Investment in the Diamond Hill Small Cap Fund - Class A^(A) and the Russell 2000 Index.



^(A) The chart above represents the performance of Class A shares only, which will vary from the performance of Class C and Class I shares based on the difference in loads and fees paid by shareholders in the different classes.

^(B) The average annual total returns shown above are adjusted for maximum applicable sales charge of 5.00%.

^(C) Class A shares commenced operations on December 29, 2000.

The performance of the above Fund does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares.

The chart above represents a comparison of a hypothetical \$10,000 investment and the reinvestment of dividends and capital gains in the indicated share class versus a similar investment in the Russell 2000 Index ("Index"). The Index is an unmanaged capitalization weighted index which measures the performance of the 2,000 smallest companies based on total market capitalization. The Index is unmanaged, and does not reflect the deduction of fees associated with a mutual fund such as investment management and accounting fees. The Fund's performance reflects the deduction of fees for these services. Investors cannot invest directly in an index although they can invest in the underlying securities.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month end, please visit www.diamond-hill.com.

Tabular Presentation of Schedule of Investments

The table below provides the Small Cap Fund's sector allocation. We hope it will be useful to shareholders as it summarizes key information about the Fund's investments.

| Sector Allocation | % of Net Assets |
|---------------------------|------------------------|
| Consumer Discretionary | 8% |
| Consumer Staples | 11% |
| Energy | 13% |
| Financial | 20% |
| Health Care | 7% |
| Industrial | 10% |
| Information Technology | 7% |
| Utilities | 5% |
| Cash and Cash Equivalents | 19% |
| | <u>100%</u> |

The sector allocations are as of 12/31/09 and are subject to change.

Diamond Hill Small-Mid Cap Fund

Performance Update

Average Annual Total Returns as of December 31, 2009

| | One Year | Since Inception (12/31/05) | Expense Ratio* |
|---|---------------|----------------------------------|-------------------|
| PERFORMANCE AT NAV <i>without sales charges</i> | | | |
| Class A Shares | 40.77% | 1.76% | 1.36% |
| Class C Shares | 39.86% | 1.04% | 2.11% |
| Class I Shares | 41.36% | 2.15% | 0.97% |
| BENCHMARK | | | |
| Russell 2500 Index | 34.39% | 0.01% | |
| PERFORMANCE AT POP <i>includes sales charges</i> | | | |
| Class A Shares | 33.77% | 0.45% | |
| Class C Shares | 38.86% | 1.04% | |

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* Reflects the expense ratio as reported in the Summary Prospectus as amended October 1, 2009.

Portfolio Commentary



Christopher A. Welch, CFA
Portfolio Manager

The Diamond Hill Small-Mid Cap Fund (Class A, without sales charge) returned 40.77% in 2009. This figure compares to a 34.39% return for the benchmark Russell 2500 Index. For the four-year period since inception on 12/31/05, the Fund's return was 1.76%, annually, while the Russell 2500 Index returned 0.01% over the same period. The since-inception performance is disappointing on an absolute basis, though we are pleased to have outperformed on a relative basis both during the major downturn in 2008, as well as the strong recovery of 2009.



Christopher M. Bingaman, CFA
Assistant Portfolio Manager

Entering the year, we felt there was a unique opportunity in a number of formerly large cap stocks that had fallen into the mid cap market capitalization range during the downturn. Retrospective evidence of such opportunity is offered by the significant outperformance of the Russell 2500 Index (Small-Mid Cap) over the Russell indexes covering large cap and small cap stocks, despite meaningful overlap in holdings in those indexes. Our investments from fall 2008 through early 2009 in a number of these situations, such as Juniper Networks, Inc., Prudential Financial, Inc. and Freeport McMoran Copper & Gold, Inc., contributed significant benefits to portfolio performance.



Thomas P. Schindler, CFA
Assistant Portfolio Manager

From a sector perspective, all economic sectors contributed positive absolute performance during 2009. The energy sector offered the highest contribution to performance, led by Cimarex Energy Co., Noble Energy, Inc. and Encore Acquisition Co., which announced late in the year that it agreed to be acquired by Denbury Resources, Inc. That acquisition is expected to be completed in early 2010.

With regard to individual securities, a group of insurance stocks including XL Capital Ltd., Prudential Financial, Inc. and Assured Guaranty Ltd. were significant gainers. SunTrust Banks, Inc. also was a leading contributor in 2009. A number of technology stocks also generated strong gains, including KLA-Tencor Corp., Alliance Data Systems Corp. and

Juniper Networks, Inc. On the negative side, the three largest detractors from performance were all banks: Huntington Bancshares, Inc., Synovus Financial Corp. and UCBH Holdings, Inc.

In our 2008 Portfolio Commentary, we wrote the following:

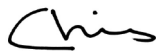
Generally speaking, the portfolio had a fairly high exposure to economically sensitive sectors and companies at year-end. This is not because we are predicting an economic “recovery” in the next 6-12 months; in fact, it is a near certainty that economic news will continue to be weak for some time. However, many stocks in these sectors appear to be discounting not only a recessionary environment, but even near depression-type of economic activity levels. This remains a possibility, but there are some early signs that the government’s efforts to stabilize the financial system are beginning to work – namely, certain key credit spreads have begun to meaningfully shrink in recent weeks. Furthermore, the continuing government commitment to avoiding an economic collapse suggests that a forecast of that level of weakness is likely not the most probable outcome. In any event, we feel that the individual companies we own in the portfolio are positioned and priced to deliver attractive returns over the next 5 years, and we will continue to carefully assess the risk levels we are incurring in pursuit of strong returns.

While the economic outlook has improved modestly over the past 12 months, the reaction of stock prices has been dramatic. Returns that we thought might take 5 years to realize occurred, in many cases, over the course of a few months. The “fear discount” that was being applied to many economically sensitive companies a year ago no longer appears to be in place. As such, we sold a number of our more cyclical holdings during the year as prices reached our intrinsic value estimates. In general, we found better margins of safety in higher quality companies as the year progressed, with an emphasis on opportunities in the health care and consumer staples sectors. The portfolio cash level also rose from 8% at year-end 2008 to 18% at year-end 2009. We will continue to balance risk and reward in our appraisal of individual company values.

We appreciate your ongoing support and look forward to continuing to work with you in the coming years.



Christopher A. Welch, CFA
Portfolio Manager



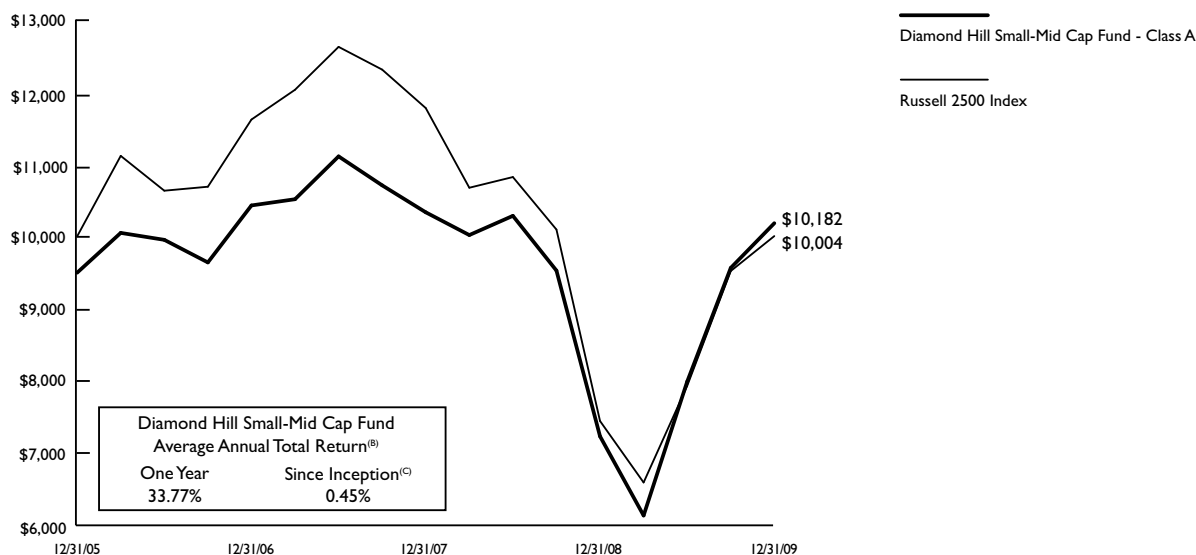
Christopher M. Bingaman, CFA
Assistant Portfolio Manager



Thomas P. Schindler, CFA Portfolio
Assistant Portfolio Manager

Growth of \$10,000

Comparison of the Change in Value of a \$10,000 Investment in the Diamond Hill Small-Mid Cap Fund - Class A^(A) and the Russell 2500 Index.



^(A) The chart above represents the performance of Class A shares only, which will vary from the performance of Class C and Class I shares based on the difference in loads and fees paid by shareholders in the different classes.

^(B) The total return shown above is adjusted for maximum applicable sales charge of 5.00%.

^(C) Class A shares commenced operations on December 31, 2005.

The performance of the above Fund does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares.

The chart above represents a comparison of a hypothetical \$10,000 investment and the reinvestment of dividends and capital gains in the indicated share class versus a similar investment in the Russell 2500 Index ("Index"). The Index is an unmanaged capitalization weighted index which measures the performance of the 2,500 smallest companies based on total market capitalization. The Index is unmanaged, and does not reflect the deduction of fees associated with a mutual fund such as investment management and accounting fees. The Fund's performance reflects the deduction of fees for these services. Investors cannot invest directly in an index although they can invest in the underlying securities.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month end, please visit www.diamond-hill.com.

Tabular Presentation of Schedule of Investments

The table below provides the Small-Mid Cap Fund's sector allocation. We hope it will be useful to shareholders as it summarizes key information about the Fund's investments.

| Sector Allocation | % of Net Assets |
|---------------------------|------------------------|
| Consumer Discretionary | 8% |
| Consumer Staples | 11% |
| Energy | 17% |
| Financial | 17% |
| Health Care | 8% |
| Industrial | 11% |
| Information Technology | 5% |
| Utilities | 6% |
| Cash and Cash Equivalents | 17% |
| | <u>100%</u> |

The sector allocations are as of 12/31/09 and are subject to change.

Diamond Hill Large Cap Fund

Performance Update

Average Annual Total Returns as of December 31, 2009

| | One Year | Five Years | Since Inception (6/29/01) | Expense Ratio* |
|---|---------------|--------------|---------------------------|----------------|
| PERFORMANCE AT NAV <i>without sales charges</i> | | | | |
| Class A Shares | 30.21% | 3.89% | 5.23% | 1.20% |
| Class C Shares | 29.34% | 3.09% | 4.41% | 1.95% |
| Class I Shares | 30.71% | 4.29% | 5.47% | 0.81% |
| BENCHMARK | | | | |
| Russell 1000 Index | 28.43% | 0.79% | 1.23% | |
| PERFORMANCE AT POP <i>includes sales charges</i> | | | | |
| Class A Shares | 23.72% | 2.82% | 4.60% | |
| Class C Shares | 28.34% | 3.09% | 4.41% | |

Historical performance for Class C shares and Class I shares prior to their inception is based on the performance of Class A shares. Class C and Class I performance has been adjusted to reflect differences in sales charges and expenses between classes.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month end, please visit www.diamond-hill.com.

* Reflects the expense ratio as reported in the Summary Prospectus as amended October 1, 2009.

Portfolio Commentary



Charles S. Bath, CFA
Portfolio Manager

The Diamond Hill Large Cap Fund (Class A, without sales charge) returned 30.21% in 2009 compared to 28.43% for the Russell 1000 index. This year was certainly a relief after awful market returns in 2008, and I am glad to have outperformed in this market recovery. The Fund was down well over 20% during the market lows of March 2009, and the performance during the recovery was gratifying. The first quarter of 2009, coming as it did after a difficult 2008, was the most demanding period of my 27-year career. I am certainly glad that piece of market history is now behind us. Nevertheless, this decade is unique in providing ten years of negative returns in the broad market indexes. Much of this was a function of severely overvalued markets at the beginning of the decade. When taking a much longer-term perspective, equities have still provided a good long-term return to shareholders. It is this long-term perspective where our focus remains and where we encourage our shareholders to focus as well.



William C. Dierker, CFA
Assistant Portfolio Manager

Our energy holdings continued to represent the largest area of investment in the portfolio for much of the year. We focused on this area of investment over five years ago and continue to feel there are good long-term opportunities available in this sector. Our focus has been on the North American exploration and production companies, as they provide the best combination of attractive assets and good valuation. Exxon Mobil Corp. apparently agrees, as they recently bid to acquire XTO Energy, Inc., one of the holdings in the portfolio and solid contributor to portfolio performance. However, Anadarko Petroleum Corp. was an even greater contributor as it was a large holding in the Fund and appreciated over 60%. Large holdings like Apache Corporation and Occidental Petroleum Corp. were also up over 35% and contributed to the Fund's performance.



Christopher A. Welch, CFA
Assistant Portfolio Manager

Health care is now approaching 20% of the portfolio and was an important contributor in 2009 as well. Medtronic, Inc., a depressed company with good growth prospects, appreciated nearly 40%, and at year-end, it was the largest health care holding. However, Schering-Plough Corp. was clearly the biggest contributor to performance, as it benefited from the acquisition by Merck & Co. As a result of the merger, we swapped into the shares of Merck & Co., due to the benefits of combining

the two large pharmaceutical companies. Pfizer, Inc. was also a large holding, and it should benefit from the acquisition of Wyeth Pharmaceuticals, Inc. These two merged pharmaceutical companies should benefit from the opportunity to remove considerable costs from their business, while continuing to grow their revenues. Health care appears to provide an area of attractive value in the equity markets, as investors shun this controversial but relatively stable industry for companies with greater cyclical recovery opportunity.

Some of our technology holdings provided strong performance for the portfolio, but as they appreciated to our price targets, they were eliminated. Stocks like Juniper Networks, Inc. and Texas Instruments, Inc. were up over 35% but were sold when their price reached our estimates of intrinsic value. Both these companies are strong competitors in attractive markets, and I would like to own these stocks again in the future, if they can be purchased at attractive prices.

Huntington Bancshares, Inc. and Synovus Financial Corp. were by far the worst performers, and they were eliminated from the portfolio after declines of 86% and 65%, respectively. However, the proceeds from these sales were used to purchase SunTrust Banks, Inc., which was the biggest winner in the portfolio. The swap ended up being successful, as the recovery in SunTrust Banks, Inc. exceeded the recovery in the bank stocks we sold.

Other disappointing holdings in the portfolio were our investments in the paper industry. Shares of International Paper Co. and Domtar Corp. were sold early in the year with losses of 45% and 51%. Our concerns about secular weakness in the paper industry were overwhelmed by near-term cyclical recovery opportunities. However, the pressure on the industry remains, and I do not foresee returning to these investments.

As of the end of 2009, I am concluding my seventh full year of managing the Diamond Hill Large Cap Fund. Of any period in the 27 years I have spent in the investment business, the period of 2008-2009 has been the most difficult for owners of U.S. equities. Thank you for your continued support.



Charles S. Bath, CFA
Portfolio Manager



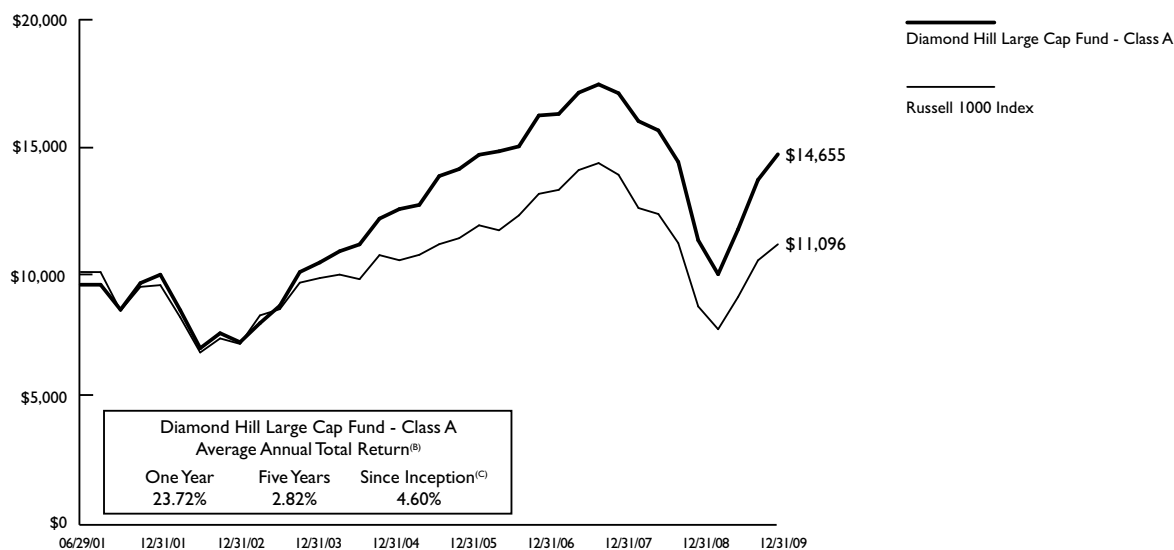
Bill C. Dierker, CFA
Assistant Portfolio Manager



Christopher A. Welch, CFA
Assistant Portfolio Manager

Growth of \$10,000

Comparison of the Change in Value of a \$10,000 Investment in the Diamond Hill Large Cap Fund - Class A^(A) and the Russell 1000 Index.



^(A) The chart above represents the performance of Class A shares only, which will vary from the performance of Class C and Class I shares based on the difference in loads and fees paid by shareholders in the different classes.

^(B) The average annual total returns shown above are adjusted for maximum applicable sales charge of 5.00%.

^(C) Class A shares commenced operations on June 29, 2001.

The performance of the above Fund does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares.

The chart above represents a comparison of a hypothetical \$10,000 investment and the reinvestment of dividends and capital gains in the indicated share class versus a similar investment in the Russell 1000 Index ("Index"). The Index is an unmanaged capitalization weighted index which measures the performance of the 1,000 largest companies based on total market capitalization. The Index is unmanaged, and does not reflect the deduction of fees associated with a mutual fund such as investment management and accounting fees. The Fund's performance reflects the deduction of fees for these services. Investors cannot invest directly in an index although they can invest in the underlying securities.

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Tabular Presentation of Schedule of Investments

The table below provides the Large Cap Fund's sector allocation. We hope it will be useful to shareholders as it summarizes key information about the Fund's investments.

| Sector Allocation | % of Net Assets |
|---------------------------|------------------------|
| Consumer Discretionary | 2% |
| Consumer Staples | 15% |
| Energy | 19% |
| Financial | 14% |
| Health Care | 19% |
| Industrial | 14% |
| Information Technology | 9% |
| Utilities | 2% |
| Cash and Cash Equivalents | 6% |
| | <u>100%</u> |

The sector allocations are as of 12/31/09 and are subject to change.

Diamond Hill Select Fund

Performance Update

Average Annual Total Returns as of December 31, 2009

| | One Year | Since Inception (12/31/05) | Expense Ratio* |
|---|---------------|----------------------------------|-------------------|
| PERFORMANCE AT NAV <i>without sales charges</i> | | | |
| Class A Shares | 32.26% | 1.68% | 1.31% |
| Class C Shares | 31.86% | 0.97% | 2.06% |
| Class I Shares | 33.63% | 2.08% | 0.92% |
| BENCHMARK | | | |
| Russell 3000 Index | 28.34% | (0.53%) | |
| PERFORMANCE AT POP <i>includes sales charges</i> | | | |
| Class A Shares | 25.63% | 0.38% | |
| Class C Shares | 30.86% | 0.97% | |

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* Reflects the expense ratio as reported in the Summary Prospectus as amended October 1, 2009.

Portfolio Commentary



William C. Dierker, CFA
Portfolio Manager

What a difference a year makes! This time last year, we were bemoaning the extreme risk aversion by investors. Remember when people were buying Treasury Bills at a premium, locking in negative returns as a result? "Return of Capital" was more important than "Return on Capital." In 2008, the top five Benchmarks in terms of total return were:

| | 2008 Return | 2009 Return |
|---------------------------------------|-------------|-------------|
| Barclays Capital LT Treasuries | 25.06% | 13.10% |
| Barclays Capital Global LT Treasuries | 12.97% | 2.19% |
| Barclays Capital U.S. Aggregate Bonds | 5.24% | 5.93% |
| Gold Futures | 4.82% | 23.97% |
| Three-month T-Bills | 1.46% | 0.16% |

In 2009, the top five Benchmarks in terms of total return were:

| | 2008 Return | 2009 Return |
|-----------------------------------|-------------|-------------|
| MSCI Emerging Markets | (45.92%) | 62.29% |
| Barclays Capital High Yield Bonds | (26.16%) | 58.21% |
| S&P/GSCI Commodity Index | (42.80%) | 50.30% |
| Russell Mid-Cap Growth | (44.32%) | 46.31% |
| NASDAQ Composite | (40.54%) | 43.89% |



Charles S. Bath, CFA
Assistant Portfolio Manager

Many who focused on "Return of Capital" missed out on the "Return on Capital." As of December 23, 2009, net inflows to bond mutual funds for the year totaled \$335.9 billion. During the same period, net inflows to U.S. focused open end mutual funds totaled a negative \$23.7 billion.



Christopher A. Welch, CFA
Assistant Portfolio Manager

For most of the first quarter of 2009, this conservatism seemed to be the smart choice. For example, from the end of 2008 to March 9, 2009, the Diamond Hill Select Fund had a total return of (24.6%). Although we didn't know it at the time, March 9th would prove to be the low point of the year. From March 9 to the end of 2009, the Select Fund had a total return of 75.5%. For the full year of 2009, the Select Fund has a total return of 32.26% (Class A, without sales charge) compared to a 28.34% return for the benchmark Russell 3000

Index. Longer-term performance vs. benchmark and peers is solid, but the absolute returns still lag behind our objectives. It is safe to say that over the past ten years, investors were not compensated for the risks that they took.

Looking at the drivers of performance for the Select Fund in 2009, it was a mixed bag of names. The top five contributors to the absolute return of the Select Fund were Hanesbrands, Inc., Freeport-McMoran Copper and Gold, Inc., Schering Plough, Corp., SunTrust Banks, Inc., and Anadarko Petroleum Corp.

On the negative side, the top five detractors from the absolute return of the Select Fund were Huntington Bancshares, Inc., Synovus Financial Corp., International Paper Co., Avery Dennison Corp., and Domtar Corp.

In terms of sectors, I would highlight four sectors and their contribution (or lack thereof) to our performance relative to the Russell 3000 Index. The energy sector was our largest source of outperformance relative to the Russell 3000. We were overweight energy throughout the year, and our stock selection added considerable value as well. Similar to energy, we were overweight the industrial sector throughout 2009, and our stock selections added value. In the health care sector, our performance benefitted from our overweight of the sector, as well as our stock selection. Finally, while all of our holdings in the technology sector were strong contributors to the return of the Select Fund, our holdings underperformed the Index holdings. The fact that we were underweight in the best performing sector in the Russell 3000 did not help our performance.

Last year, I talked about the “importance of being confident in the long-term growth of the U.S. economy and the normal functioning of the capital markets.” Our long-term oriented investment philosophy served us well, as we navigated the 2008-2009 market challenges. I expect that this philosophy will serve us well, as we confront the challenges that future markets will undoubtedly pose. As fellow shareholders in the Select Fund, we are committed to act in your best interests.



William C. Dierker, CFA
Portfolio Manager



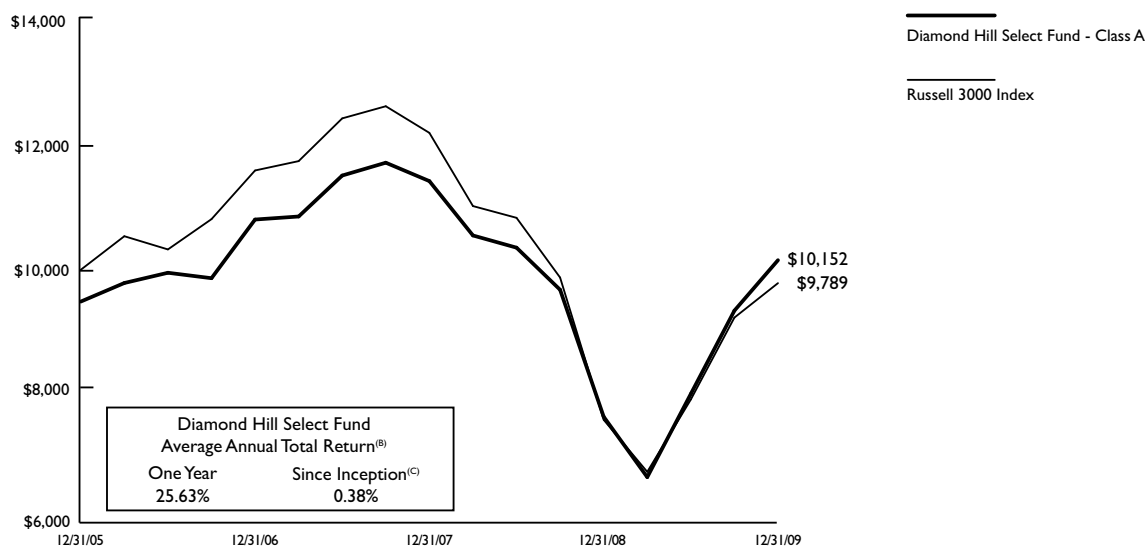
Charles S. Bath, CFA
Assistant Portfolio Manager



Christopher A. Welch, CFA
Assistant Portfolio Manager

Growth of \$10,000

Comparison of the Change in Value of a \$10,000 Investment in the Diamond Hill Select Fund - Class A^(A) and the Russell 3000 Index.



^(A) The chart above represents the performance of Class A shares only, which will vary from the performance of Class C and Class I shares based on the difference in loads and fees paid by shareholders in the different classes.

^(B) The total return shown above is adjusted for maximum applicable sales charge of 5.00%.

^(C) Class A shares commenced operations on December 31, 2005.

The performance of the above Fund does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares.

The chart above represents a comparison of a hypothetical \$10,000 investment and the reinvestment of dividends and capital gains in the indicated share class versus a similar investment in the Russell 3000 Index ("Index"). The Index is an unmanaged capitalization weighted index which measures the performance of the 3,000 largest companies based on total market capitalization. The Index is unmanaged, and does not reflect the deduction of fees associated with a mutual fund such as investment management and accounting fees. The Fund's performance reflects the deduction of fees for these services. Investors cannot invest directly in an index although they can invest in the underlying securities.

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Tabular Presentation of Schedule of Investments

The table below provides the Select Fund's sector allocation. We hope it will be useful to shareholders as it summarizes key information about the Fund's investments.

| Sector Allocation | % of Net Assets |
|---------------------------|------------------------|
| Consumer Discretionary | 3% |
| Consumer Staples | 14% |
| Energy | 17% |
| Financial | 12% |
| Health Care | 21% |
| Industrial | 12% |
| Information Technology | 9% |
| Utilities | 2% |
| Cash and Cash Equivalents | 10% |
| | 100% |

The sector allocations are as of 12/31/09 and are subject to change.

Diamond Hill Long-Short Fund

Performance Update

Average Annual Total Returns as of December 31, 2009

| | One Year | Five Years | Since Inception (6/30/00) | Expense Ratio* |
|---|---------------|--------------|---------------------------|----------------|
| PERFORMANCE AT NAV <i>without sales charges</i> | | | | |
| Class A Shares | 17.93% | 5.69% | 6.63% | 1.68% |
| Class C Shares | 17.02% | 4.89% | 5.82% | 2.43% |
| Class I Shares | 18.39% | 6.11% | 6.86% | 1.29% |
| BENCHMARK | | | | |
| Russell 1000 Index | 28.43% | 0.79% | (0.60%) | |
| 50% Russell 1000 Index / 50% Citi 3 Month T-Bill | 14.14% | 2.18% | 1.39% | |
| PERFORMANCE AT POP <i>includes sales charges</i> | | | | |
| Class A Shares | 12.02% | 4.61% | 6.05% | |
| Class C Shares | 16.02% | 4.89% | 5.82% | |

Historical performance for Class C shares and Class I shares prior to their inception is based on the performance of Class A shares. Class C and Class I performance has been adjusted to reflect differences in sales charges and expenses between classes.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month end, please visit www.diamond-hill.com.

* Reflects the expense ratio as reported in the Summary Prospectus as amended October 1, 2009.

Portfolio Commentary



R.H. Dillon, CFA
Portfolio Co-Manager

The Diamond Hill Long-Short Fund (Class A, without sales charge) returned 17.93% in 2009 compared to 28.43% for the Russell 1000 and 10.46% for the Morningstar Long-Short category average. This year was marked by an awful first quarter decline, as the market reached its yearly low in the first quarter. The subsequent rally was gratifying, as 2009 became a strong recovery year following the disastrous market of 2008. The portfolio performed well in 2009 but clearly lagged the rapidly rising equity markets in the last three quarters of the year. This is typical of a long-short fund and should be expected in rapidly rising markets. The short positions provided a drag on performance, making it difficult for the portfolio to appreciate in line with a strong market. However, we are very happy with the long-term performance of the Fund, as it has meaningfully outperformed its benchmarks over longer time periods.



Charles S. Bath, CFA
Portfolio Co-Manager

The long portion of the portfolio was dominated by the energy sector in 2009. This sector was the largest weight for most of the year, and many of the biggest contributors to the performance on the long side of the portfolio were in this sector. Anadarko Petroleum Corp. was the strongest contributor, as it appreciated more than 60%. Apache Corp. was the largest long equity position for much of the year, and it was up over 35%. Many of the characteristics which made this group so attractive for the past several years, including good valuation and growth opportunities, remain. Therefore, at year-end it was one of the largest sector weights in the long portfolio.



Christopher M. Bingaman, CFA
Assistant Portfolio Manager

Health care was our other large sector weight at year-end. It was nearly 20% of the portfolio and along with energy, was our largest sector weight. Valuations in this sector became depressed, as investors worried about health care reform and abandoned the sector for investments with more cyclical recovery opportunity. Medtronic, Inc., a depressed company with good growth prospects, appreciated nearly 40% and was our largest health care holding

at year-end. However, Schering-Plough Corp. was the biggest contributor to performance, as it appreciated more than 70% subsequent to the merger with Merck & Co. As a result of the merger, we swapped into the shares of Merck & Co., due to the benefits of combining the two large pharmaceutical companies. Pfizer, Inc. was also a large holding, and it should benefit from the merger with Wyeth Pharmaceuticals, Inc. These two merged pharmaceutical companies should benefit from the opportunity to remove costs from their business, while continuing to grow their revenues.

Some of our technology holdings provided strong performance for the portfolio, but as they appreciated to our price targets, they were eliminated. Stocks like Juniper Networks, Inc. and Texas Instruments, Inc. were up over 35% but were sold, because their prices reached our estimates of intrinsic value. Overall, technology stocks did well for the Fund, but our underweight position in the sector hurt the long portion of the portfolio.

While the long portion of the portfolio did well, there were still some disappointments. Domtar Corp. and International Paper Co. were down 51% and 45%, respectively, when they were sold early in the year. Our concerns about secular weakness in the paper industry were overwhelmed by near-term cyclical recovery opportunities. However, the pressure on the industry remains, and we continue to monitor these names in case they become attractive short opportunities.

For the most part, the short portion of the portfolio was a drag on performance. However, a couple of meaningful successes were our positions in the for-profit education market. Apollo Group, Inc. and Corinthian Colleges, Inc. were meaningful contributors, as both declined more than 20%, before the positions were closed out. There were a few other minor successes, but most short positions were meaningful drags on the portfolio. Royal Caribbean Cruises Ltd. and Amazon, Inc. were the biggest negative contributors from the consumer portion of the portfolio. Amazon more than doubled for the year, but we have maintained the short position, as increasing levels of competition should pressure the valuation of the shares. We are also maintaining the Royal Caribbean Cruises Ltd. position, as increased capacity in the industry should bring renewed pressure to profitability. However, our worst short position for the year was Dow Chemical Co. This was a large short position, due to our skepticism regarding the Rohm & Haas Co. acquisition. We remain skeptical, but the stock has appreciated over 70% in the hope of a strong cyclical earnings recovery. The stock remained a meaningful short position at year-end.


As of the end of 2009, we have concluded a very painful decade for the equities market. Returns for most major indexes in the decade ending in 2009 were negative. However, when using a much longer time frame, equity returns are still quite attractive. During this difficult decade, we appreciate the faith shareholders have placed in Diamond Hill. We thank you for your continued support.



R.H. Dillon, CFA
Portfolio Co-Manager



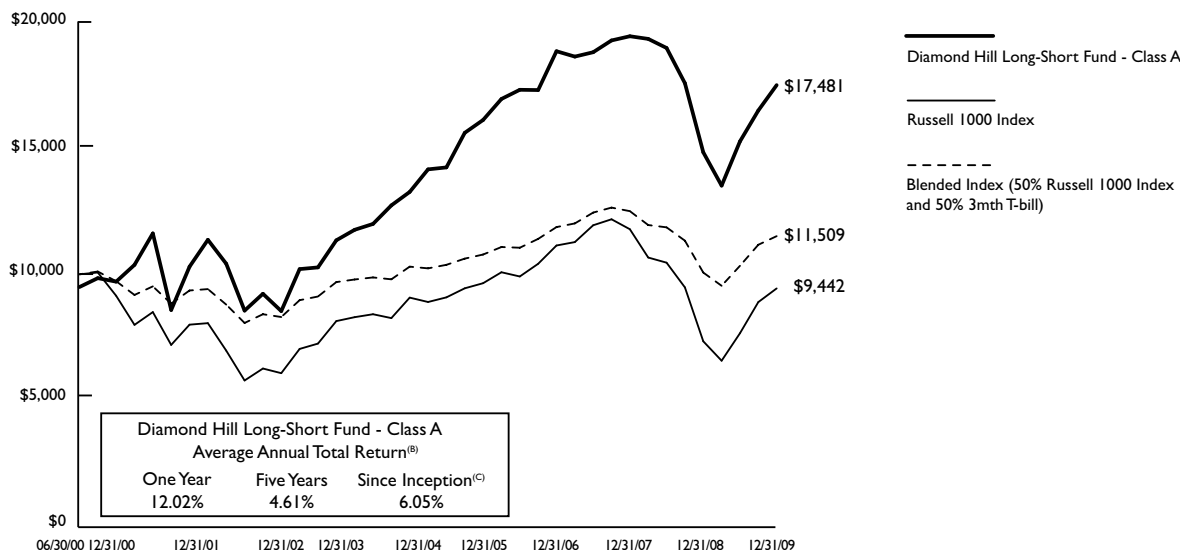
Charles S. Bath, CFA
Portfolio Co-Manager



Christopher M. Bingaman, CFA
Assistant Portfolio Manager

Growth of \$10,000

Comparison of the Change in Value of a \$10,000 Investment in the Diamond Hill Long-Short Fund - Class A^(A), the Russell 1000 Index and the Blended Index (50% Russell 1000 Index and 50% 3mth T-bill).



^(A) The chart above represents the performance of Class A shares only, which will vary from the performance of Class C and Class I shares based on the difference in loads and fees paid by shareholders in the different classes.

^(B) The average annual total returns shown above are adjusted for maximum applicable sales charge of 5.00%.

^(C) Class A shares commenced operations on June 30, 2000.

The performance of the above Fund does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares.

The chart above represents a comparison of a hypothetical \$10,000 investment and the reinvestment of dividends and capital gains in the indicated share class versus a similar investment in the Russell 1000 Index ("Index"). The Index is an unmanaged capitalization weighted index which measures the performance of the 1,000 largest companies based on total market capitalization. The Index is unmanaged, and does not reflect the deduction of fees associated with a mutual fund such as investment management and accounting fees. The Fund's performance reflects the deduction of fees for these services. Investors cannot invest directly in an index although they can invest in the underlying securities.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month end, please visit www.diamond-hill.com.

Tabular Presentation of Schedule of Investments

The table below provides the Long-Short Fund's sector allocation. We hope it will be useful to shareholders as it summarizes key information about the Fund's investments.

| Sector Allocation | % of Long Portfolio | % of Net Assets | Sector Allocation | % of Short Portfolio | % of Net Assets |
|--------------------------|----------------------------|------------------------|------------------------------|-----------------------------|------------------------|
| Long Portfolio | | | Short Portfolio | | |
| Consumer Discretionary | 2% | 2% | Consumer Discretionary | 44% | -16% |
| Consumer Staples | 13% | 13% | Consumer Staples | 13% | -5% |
| Energy | 19% | 20% | Finance | 2% | -1% |
| Financial | 10% | 11% | Health Care | 16% | -6% |
| Health Care | 18% | 20% | Industrial | 5% | -2% |
| Industrial | 13% | 14% | Information Technology | 6% | -2% |
| Information Technology | 9% | 9% | Materials | 6% | -2% |
| Utilities | 2% | 3% | Telecommunication Services | 1% | 0% |
| Cash & Cash Equivalents | 14% | 8% | Exchange Traded Funds | 7% | -2% |
| | <u>100%</u> | | | <u>100%</u> | |
| | | | Other | | |
| | | | Segregated Cash with Brokers | | 36% |
| | | | | | <u>100%</u> |

The sector allocations are as of 12/31/09 and are subject to change.

Diamond Hill Financial Long-Short Fund

Performance Update

Average Annual Total Returns as of December 31, 2009

| | One Year | Five Years | Ten Years | Expense Ratio* |
|---|---------------|-----------------|----------------|-------------------|
| PERFORMANCE AT NAV <i>without sales charges</i> | | | | |
| Class A Shares | 24.73% | (7.86%) | 5.54% | 1.89% |
| Class C Shares | 23.81% | (8.59%) | 4.81% | 2.64% |
| Class I Shares | 25.31% | (7.61%) | 5.68% | 1.50% |
| BENCHMARK | | | | |
| S&P 1500 SuperComposite Financials Index | 15.46% | (10.58%) | (2.04%) | |
| PERFORMANCE AT POP <i>includes sales charges</i> | | | | |
| Class A Shares | 18.44% | (8.81%) | 5.00% | |
| Class C Shares | 22.81% | (8.59%) | 4.81% | |

Historical performance for Class I shares prior to its inception is based on the performance of Class A shares. Class I performance has been adjusted to reflect differences in sales charges and expenses between classes.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month end, please visit www.diamond-hill.com.

* Reflects the expense ratio as reported in the Summary Prospectus as amended December 31, 2009.

Portfolio Commentary



Christopher M. Bingham, CFA
Portfolio Manager

Along with the overall domestic equity markets, 2009 was a strong year for the Diamond Hill Financial Long-Short Fund. The portfolio produced a 24.73% total return (class A, without sales charge), as it benefited from a heavy long bias, which was maintained throughout the year. The Fund's primary benchmark (the S&P 1500 SuperComposite Financials Index) posted a total return of 15.46% which lagged the broader U.S. equity indices once again. The past year marked the third consecutive year the overall financial sector trailed the market and the sixth straight year of relative underperformance for the BKX (the KBW Bank Index), including three straight calendar years of negative total returns.



Austin Hawley, CFA
Assistant Portfolio Manager

It often follows that after lengthy periods of poor returns, the stage is set for much brighter days, and we do believe this is the case once again for many financial services companies. While many key industries within the sector continue to struggle with the headwinds from the credit and economic crises experienced over the past couple of years, the overall environment appears to be improving at a steady pace. First and foremost, capital levels in the banking industry have increased dramatically over the past year, and the private sector continues to provide large amounts of new common equity capital allowing for the repayment of TARP obligations, as well as the improvement of the industry's capital mix. In addition, while new regulatory guidelines on capital levels (at least for the banks) are likely during 2010, these new rules are not likely to be more burdensome than many investors already fear and should also help increase investor confidence in the health and stability of the overall industry. On the credit front, loan losses and securities impairments continue, however, a tremendous amount of reserve building and/or write downs have now taken place. Therefore the prospective headwind is likely to be much less of a burden and could actually turn into a tailwind, if indeed net charge-offs peak and begin to improve during 2010. Finally, the significantly healthier state of the equity and credit markets in general is also quite beneficial to nearly the entire sector - from both a general business as well as a capital cost perspective.



John Loesch, CFA
Assistant Portfolio Manager

As we wrote last year, we value stocks using a long-term horizon and a bias toward estimating normalized earnings. Once again, combining these traits leads us to continue to have a heavy long bias in the portfolio. In particular, we

continued to hold investments in companies which we believe have been able to substantially improve their competitive position during the current economic/credit cycle. Examples in the larger end of the market cap spectrum would be two long-time holdings – Wells Fargo & Co. and U.S. Bancorp – as well as JPMorgan Chase & Co. and PNC Financial Services Group. We also added to smaller cap banks and thrifts that we believe are similarly positioned to succeed. Most of these organizations have been the beneficiaries of forced mergers and/or FDIC assisted transactions and should be well positioned coming out of the recession. In addition, we continued to find value in a number of insurance companies – Assured Guaranty Ltd., Travelers Cos., Inc., Prudential Financial, Inc. and Old Republic International Corp. are all top ten holdings - where the credit pressures of the cycle were felt very early, due to their investments in real estate related assets (primarily securities). These insurance industry participants have weathered the storm and now display relatively sound balance sheets and strong capital levels and are positioned to add profitable market share in their respective business lines. Finally, we are now relatively less optimistic about the asset management and investment banking/brokerage industries as the overall equity market and activity levels have already rallied sharply from a year ago and valuations are more reflective of the improvement in fundamentals. Regarding M&A activity within the sector, we do not expect a pick-up in deal activity in the very near-term; however continued consolidation within many areas of the sector is likely given opportunities for significant efficiency gains.

As in the past, we continue to believe shareholders in the Fund will benefit from a relatively concentrated portfolio. Also, as most of you are aware, we continue to manage the Fund as a long-short portfolio and will continue to do so for the foreseeable future. We do not intend to do this as a 'hedge' to mitigate our long exposure/volatility, but instead as a way to enhance our performance over time. Our short exposure will typically be much smaller than the long side, and therefore, we will have both fewer and smaller positions. Finally, we continually strive to maintain our disciplined process of evaluating both the fundamentals and valuations of our current and prospective investments.

We would like to thank our shareholders for their continued support of the Fund.



Christopher M. Bingaman, CFA
Portfolio Manager



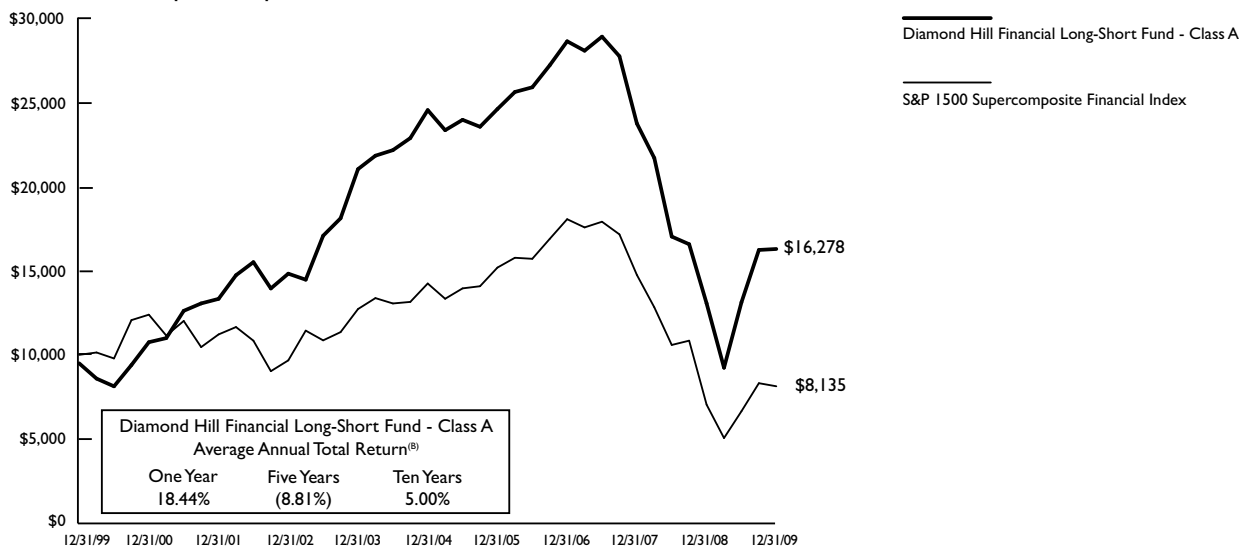
Austin Hawley, CFA
Assistant Portfolio Manager



John Loesch, CFA
Assistant Portfolio Manager

Growth of \$10,000

Comparison of the Change in Value of a \$10,000 Investment in the Diamond Hill Financial Long-Short Fund - Class A^(A), the S&P 1500 SuperComposite Financial Index.



^(A) The chart above represents the performance of Class A shares only, which will vary from the performance of Class C and Class I shares based on the difference in loads and fees paid by shareholders in the different classes.

^(B) The average annual total returns shown above are adjusted for maximum applicable sales charge of 5.00%.

The performance of the above Fund does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares.

The chart above represents a comparison of a hypothetical \$10,000 investment and the reinvestment of dividends and capital gains in the indicated share class versus a similar investment in the S&P 1500 Supercomposite Index ("Index"). The Index is an unmanaged capitalization weighted index which measures the performance of the 1,500 U.S. companies that comprise the S&P 400, S&P 500, and S&P 600 Indexes. The Index is unmanaged, and does not reflect the deduction of fees associated with a mutual fund such as investment management and accounting fees. The Fund's performance reflects the deduction of fees for these services. Investors cannot invest directly in an index although they can invest in the underlying securities.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month end, please visit www.diamond-hill.com.

Tabular Presentation of Schedule of Investments

The table below provides the Financial Long-Short Fund's sector allocation. We hope it will be useful to shareholders as it summarizes key information about the Fund's investments.

| Sector Allocation | % of Long Portfolio | % of Net Assets | Sector Allocation | % of Short Portfolio | % of Net Assets |
|----------------------------------|----------------------------|------------------------|------------------------------|-----------------------------|------------------------|
| Long Portfolio | | | Short Portfolio | | |
| Common Stocks: | | | Banking Services | 92% | -7% |
| Asset Management | 1% | 1% | Capital Markets | 8% | -1% |
| Banking Services | 24% | 28% | | <u>100%</u> | |
| Capital Markets | 4% | 5% | Other | | |
| Financial Services | 8% | 10% | Segregated Cash with Brokers | | 6% |
| Insurance | 26% | 30% | | | <u>100%</u> |
| Other Financials | 1% | 1% | | | |
| REITs and Real Estate Management | 3% | 4% | | | |
| Corporate Bonds: | | | | | |
| Banking Services | 3% | 3% | | | |
| Preferred Stocks: | | | | | |
| Banking Services | 8% | 8% | | | |
| Financial Services | 2% | 2% | | | |
| REITs and Real Estate Management | 2% | 2% | | | |
| Cash and Cash Equivalents | 18% | 8% | | | |
| | <u>100%</u> | | | | |

The sector allocations are as of 12/31/09 and are subject to change.

Diamond Hill Strategic Income Fund

Performance Update

Average Annual Total Returns as of December 31, 2009

| | One Year | Five Years | Since Inception (9/30/02) | Expense Ratio* |
|--|---------------|---------------|---------------------------------|-------------------|
| PERFORMANCE AT NAV <i>without sales charges</i> | | | | |
| Class A Shares | 32.13% | 3.90% | 7.07% | 1.10% |
| Class C Shares | 31.34% | 3.13% | 6.36% | 1.85% |
| Class I Shares | 32.69% | 4.30% | 7.35% | 0.71% |
| BENCHMARK | | | | |
| Merrill Lynch U.S. Corporate, Government, & Mortgage Index | 5.24% | 5.09% | 4.89% | |
| PERFORMANCE AT POP <i>includes sales charges</i> | | | | |
| Class A Shares | 27.51% | 3.16% | 6.55% | |
| Class C Shares | 30.34% | 3.13% | 6.36% | |

Historical performance for Class I shares prior to its inception is based on the performance of Class A shares. Class I performance has been adjusted to reflect differences in sales charges and expenses between classes.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month end, please visit www.diamond-hill.com.

* Reflects the expense ratio as reported in the Summary Prospectus as amended October 1, 2009.

Portfolio Commentary



William Zox, CFA, J.D., LL.M.
Portfolio Manager

For the year, the Diamond Hill Strategic Income Fund generated a 32.13% total return (Class A, without sales charge) compared to a 5.24% total return for the Merrill Lynch U.S. Corporate, Government and Mortgage Index Index. For the trailing five-year period, the Fund generated a total return of 3.90% per year compared to 5.09% per year for the Index and 0.81% per year for U.S. stocks, as measured by the Russell 3000 Index.

Beginning in early March, the credit markets began an historic rebound from the wrenching bear market that began in the second half of 2007. In contrast to the death spiral that characterized the bear market, the rebound was built on a virtuous cycle in which economic data points and corporate earnings came in better than expected, leading to growing equity and debt issuance and to improved balance sheets. In addition to cash from equity and debt issuance, corporations have generated cash from sharply lower capital expenditures and declining working capital investments. In general, this cash has been used in bondholder friendly ways, such as paying down debt and increasing balance sheet liquidity.

In 2009, the U.S. government issued over \$1.5 trillion of net new debt at low interest rates. Among the factors that helped to keep interest rates low are the following. First, the Federal Reserve bought \$300 billion of Treasuries last year. Second, the Fed bought over \$1 trillion of mortgage-backed securities and Federal agency debt securities, which dramatically reduced the competition for debt capital. Third, the private sector deleveraging led to a decline in private sector net debt issuance that has offset the increase in U.S. government net debt issuance. This was the first annual decline in private sector net debt issuance in the post-war era. The previous low in private sector net debt issuance in the post-war era was 4% growth. (Jan Hatzius, Goldman Sachs, US Daily: We Are Still Not "Postponing the Adjustment," January 13, 2010.)

In 2010, the U.S. government is expected to issue \$1.8 trillion of net new debt, or \$300 billion more than last year. Further, the Federal Reserve is not expected to purchase any Treasuries



Christopher M. Bingaman, CFA
Assistant Portfolio Manager



William C. Dierker, CFA
Assistant Portfolio Manager

in 2010 compared to \$300 billion in 2009. While the Fed purchased over \$1 trillion of mortgage-backed securities and Federal agency securities in 2009 year, the Fed's purchases of these securities in 2010 are expected to be less than \$400 billion. So, even if we assume that continued private sector deleveraging once again results in no new net private sector debt issuance this year, there will be upward pressure on interest rates as the private sector will be required to absorb multiples of the U.S. government debt that it had to absorb last year.

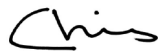
Treasury rates are well below normal levels currently and studies estimate that the dramatic growth in U.S. government debt will lead to normal interest rates that are perhaps 1.00 to 1.25 percentage points higher than they otherwise would be. This adjustment has likely begun, as Fed purchases are winding down, but it will likely accelerate when the private sector demand for credit begins to grow. That increased demand for debt capital will likely force the U.S. government to pay materially higher rates to sell its debt.

Because credit spreads are still wide, and we believe that the private sector demand for credit will continue to be soft, we are still comfortable with the corporate bonds and preferred securities in the Fund on an absolute basis.

Over the last several years, the Fund's asset allocation has evolved. In our current view, the Fund's year-end allocations to investment grade corporate bonds, non-investment grade corporate bonds, preferred securities, and cash are close to baseline allocations. At year end, investment grade corporate bonds were 62% of net assets, non-investment grade corporate bonds were 25% of net assets, preferred securities were 6% of net assets, and cash was 7% of net assets. (I should note that approximately 13 percentage points of the non-investment grade corporate bond allocation is rated investment grade by one of the major ratings agencies.) We continue to maintain a large position in financial services credits across all sectors in the Fund.



William Zox, CFA, J.D., LL.M.
Portfolio Manager



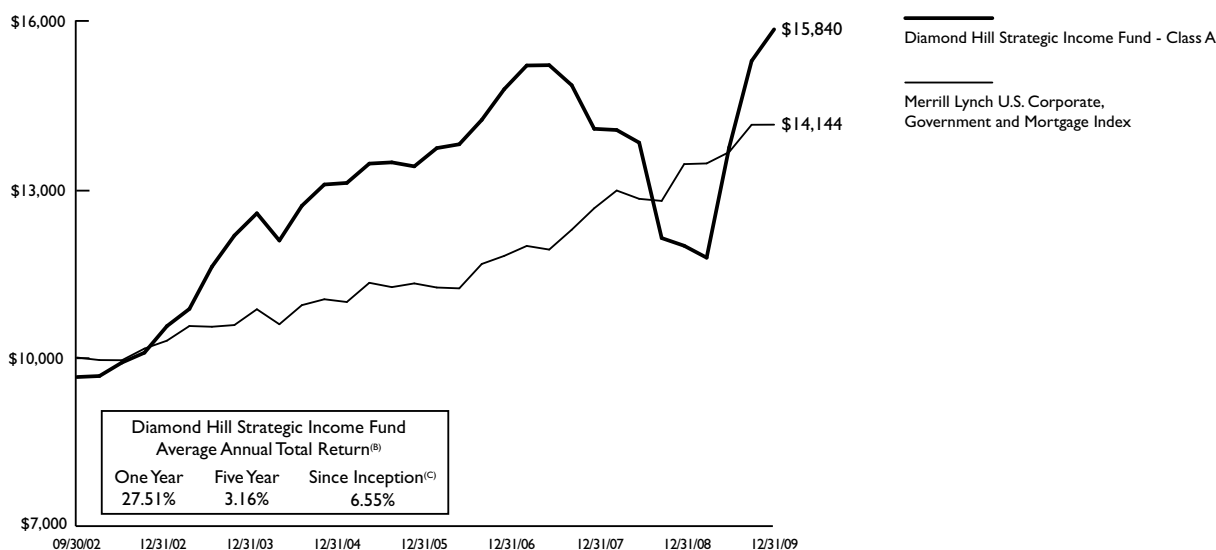
Christopher M. Bingaman, CFA
Assistant Portfolio Manager



William C. Dierker
Assistant Portfolio Manager

Growth of \$10,000

Comparison of the Change in Value of a \$10,000 Investment in the Diamond Hill Strategic Income Fund - Class A^(A) and the Merrill Lynch U.S. Corporate, Government and Mortgage Index.



^(A) The chart above represents the performance of Class A shares only, which will vary from the performance of Class C and Class I shares based on the difference in loads and fees paid by shareholders in the different classes.

^(B) The total return shown above is adjusted for maximum applicable sales charge of 3.50%.

^(C) Class A shares commenced operations on September 30, 2002.

The performance of the above Fund does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares.

The chart above represents a comparison of a hypothetical \$10,000 investment and the reinvestment of dividends and capital gains in the indicated share class versus a similar investment in the Merrill Lynch U.S. Corporate, Government & Mortgage Index ("Index"). The Index is an unmanaged index which measures the performance of a mixture of government bonds, corporate bonds and mortgage pass through securities of investment grade quality, having a maturity greater than or equal to one year. The Index is unmanaged, and does not reflect the deduction of fees associated with a mutual fund such as investment management and accounting fees. The Fund's performance reflects the deduction of fees for these services. Investors cannot invest directly in an index although they can invest in the underlying securities.

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Tabular Presentation of Schedule of Investments

The table below provides the Strategic Income Fund's sector allocation. We hope it will be useful to shareholders as it summarizes key information about the Fund's investments.

| Sector Allocation | % of Net Assets |
|---|------------------------|
| Corporate Bonds - Maturing > 2 Years | 86% |
| Corporate Bonds - Maturing or Likely to be Called < 2 Years | 0% |
| Preferred Stocks | 7% |
| Collateralized Debt Obligations | 0% |
| Common Stocks | 0% |
| Cash and Cash Equivalents | 7% |
| | <u>100%</u> |

The sector allocations are as of 12/31/09 and are subject to change.

Diamond Hill Small Cap Fund

Schedule of Investments

December 31, 2009

| | Shares | Fair Value | | Shares | Fair Value |
|---|-----------|--------------|---|-----------|---------------|
| Common Stocks — 80.9% | | | Financial — 19.7% continued | | |
| Consumer Discretionary — 8.4% | | | | | |
| Aaron's, Inc. ^o | 198,410 | \$ 5,501,909 | Leucadia National Corp.* ^o | 331,645 | \$ 7,889,835 |
| Brink's Home Security Holdings, Inc.* | 114,340 | 3,732,058 | Mid-America Apartment Communities, Inc. REIT ^o | 125,069 | 6,038,331 |
| Callaway Golf Co. ^o | 731,916 | 5,518,647 | National Penn Bancshares, Inc. ^o | 450,240 | 2,606,890 |
| Global Sources Ltd.* | 269,145 | 1,682,156 | Old Republic International Corp. ^o | 1,284,045 | 12,891,812 |
| Hanesbrands, Inc.* ^o | 2,000 | 48,220 | Redwood Trust, Inc. REIT ^o | 286,720 | 4,145,971 |
| Hillenbrand, Inc. | 353,435 | 6,658,715 | United Fire & Casualty Co. ^o | 186,509 | 3,400,059 |
| JAKKS Pacific, Inc.* ^o | 438,753 | 5,317,686 | | | 111,724,046 |
| K-Swiss, Inc., Class A* ^o | 457,100 | 4,543,574 | | | |
| Steiner Leisure Ltd.* ^o | 374,617 | 14,894,772 | Health Care — 7.2% | | |
| | | 47,897,737 | Analogic Corp. ^o | 66,298 | 2,553,136 |
| | | | inVentiv Health, Inc.* | 290,710 | 4,700,781 |
| Consumer Staples — 10.7% | | | King Pharmaceuticals, Inc.* | 743,930 | 9,128,021 |
| American Italian Pasta Co., Class A* | 196,753 | 6,845,037 | LifePoint Hospitals, Inc.* ^o | 339,805 | 11,047,060 |
| Chattem, Inc.* ^o | 204,925 | 19,119,503 | Res-Care, Inc.* | 757,453 | 8,483,474 |
| Del Monte Foods Co. | 670,160 | 7,599,614 | STERIS Corp. ^o | 184,640 | 5,164,381 |
| Flowers Foods, Inc. ^o | 648,640 | 15,411,686 | | | 41,076,853 |
| Hain Celestial Group, Inc., The* ^o | 373,770 | 6,357,828 | Industrial — 9.6% | | |
| Ruddick Corp. ^o | 217,930 | 5,607,339 | AirTran Holdings, Inc.* ^o | 1,266,400 | 6,610,608 |
| | | 60,941,007 | Apogee Enterprises, Inc. ^o | 514,250 | 7,199,500 |
| | | | BE Aerospace, Inc.* ^o | 311,260 | 7,314,610 |
| Energy — 13.3% | | | Brink's Co., The | 347,570 | 8,459,854 |
| Berry Petroleum Co., Class A ^o | 299,535 | 8,731,445 | HUB Group, Inc., Class A* | 203,920 | 5,471,174 |
| Cimarex Energy Co. ^o | 373,145 | 19,765,491 | Kaydon Corp. ^o | 106,285 | 3,800,751 |
| Encore Acquisition Co.* | 179,253 | 8,607,729 | Toro Co. ^o | 257,045 | 10,747,051 |
| Exterran Holdings, Inc.* ^o | 244,728 | 5,249,416 | Trinity Industries, Inc. ^o | 271,170 | 4,729,205 |
| Forest Oil Corp.* ^o | 222,020 | 4,939,945 | | | 54,332,753 |
| Hornbeck Offshore Services, Inc.* ^o | 301,525 | 7,019,502 | Information Technology — 7.0% | | |
| Southwestern Energy Co.* | 178,230 | 8,590,686 | Alliance Data Systems Corp.* ^o | 132,580 | 8,563,342 |
| Whiting Petroleum Corp.* ^o | 177,650 | 12,693,092 | CSG Systems International, Inc.* | 430,477 | 8,217,806 |
| | | 75,597,306 | KLA-Tencor Corp. | 250,990 | 9,075,798 |
| | | | Verigy Ltd.* | 1,087,055 | 13,990,398 |
| Financial — 19.7% | | | | | 39,847,344 |
| Alleghany Corp.* ^o | 32,111 | 8,862,636 | Utilities — 5.0% | | |
| Assurant, Inc. | 580,175 | 17,103,559 | Cleco Corp. ^o | 380,650 | 10,403,164 |
| Assured Guaranty Ltd. ^o | 803,197 | 17,477,567 | UGI Corp. | 349,690 | 8,459,001 |
| City National Corp. ^o | 90,415 | 4,122,924 | WGL Holdings, Inc. ^o | 283,864 | 9,520,799 |
| First American Corp. ^o | 294,120 | 9,738,313 | | | 28,382,964 |
| First Niagara Financial Group, Inc. | 107,800 | 1,499,498 | Total Common Stocks | | |
| Hanover Insurance Group, Inc., The ^o | 91,880 | 4,082,228 | | | \$459,800,010 |
| Horace Mann Educators Corp. | 433,390 | 5,417,375 | | | |
| Huntington Bancshares, Inc. ^o | 1,305,798 | 4,766,163 | | | |
| LaSalle Hotel Properties REIT ^o | 79,175 | 1,680,885 | | | |

Diamond Hill Small Cap Fund
Schedule of Investments (Continued)
December 31, 2009

| | Shares | Fair Value |
|---|-------------|-----------------------|
| Registered Investment Companies — 40.3% | | |
| JPMorgan Prime Money Market Fund-Capital Shares ^{††} | 220,759,987 | \$ 220,759,987 |
| JPMorgan U.S. Government Money Market Fund-Capital Shares | 8,593,713 | 8,593,713 |
| Total Registered Investment Companies | | \$ 229,353,700 |
| Total Investment Securities — 121.2% | | |
| (Cost \$637,897,638)** | | \$ 689,153,710 |
| Net Other Assets | | |
| (Liabilities) — (21.2%) | | (120,699,513) |
| Net Assets — 100.0% | | |
| | | \$ 568,454,197 |

* Non-income producing security.

** Represents cost for financial reporting purposes.

° All or a portion of the security is on loan. The total fair value of the securities on loan, as of December 31, 2009, was \$115,591,081.

†† A portion of this security, which was purchased using cash collateral received from securities on loan, represents collateral for securities loaned as of December 31, 2009. The total fair value of the collateral is \$120,753,585.

REIT – Real Estate Investment Trust

See accompanying Notes to Financial Statements.

Diamond Hill Small-Mid Cap Fund
Schedule of Investments
December 31, 2009

| | Shares | Fair Value |
|---|---------|------------------|
| Common Stocks — 82.4% | | |
| Consumer Discretionary — 8.0% | | |
| Aaron's, Inc. [°] | 14,230 | \$ 394,598 |
| Brink's Home Security Holdings, Inc.* | 9,715 | 317,098 |
| Callaway Golf Co. [°] | 81,260 | 612,701 |
| GameStop Corp., Class A* [°] | 13,245 | 290,595 |
| Hillenbrand, Inc. | 22,635 | 426,443 |
| K-Swiss, Inc., Class A* [°] | 39,130 | 388,952 |
| Steiner Leisure Ltd.* [°] | 17,780 | 706,933 |
| | | 3,137,320 |
| Consumer Staples — 10.7% | | |
| American Italian Pasta Co., Class A* [°] | 13,135 | 456,967 |
| Chattem, Inc.* [°] | 6,250 | 583,125 |
| ConAgra Foods, Inc. | 43,100 | 993,455 |
| Del Monte Foods Co. | 41,540 | 471,063 |
| Flowers Foods, Inc. [°] | 40,850 | 970,596 |
| Hain Celestial Group, Inc., The* [°] | 24,395 | 414,959 |
| Ruddick Corp. [°] | 11,415 | 293,708 |
| | | 4,183,873 |
| Energy — 16.6% | | |
| Berry Petroleum Co., Class A [°] | 20,660 | 602,239 |
| Cimarex Energy Co. [°] | 30,930 | 1,638,362 |
| Encore Acquisition Co.* | 15,580 | 748,152 |
| Exterran Holdings, Inc.* [°] | 17,095 | 366,688 |
| Forest Oil Corp.* [°] | 10,655 | 237,074 |
| Hornbeck Offshore Services, Inc.* [°] | 11,450 | 266,556 |
| Noble Energy, Inc. | 21,350 | 1,520,547 |
| Southwestern Energy Co.* | 16,525 | 796,505 |
| Whiting Petroleum Corp.* [°] | 4,590 | 327,955 |
| | | 6,504,078 |
| Financial — 17.3% | | |
| Alleghany Corp.* | 1,825 | 503,700 |
| Allstate Corp. | 23,405 | 703,086 |
| Assurant, Inc. | 26,585 | 783,726 |
| Assured Guaranty Ltd. [°] | 43,910 | 955,482 |
| City National Corp. [°] | 6,155 | 280,668 |
| First American Corp. | 17,735 | 587,206 |
| Hanover Insurance Group, Inc., The [°] | 6,300 | 279,909 |
| Huntington Bancshares, Inc. [°] | 121,714 | 444,256 |
| Marsh & McLennan Cos., Inc. | 20,135 | 444,581 |

Diamond Hill Small-Mid Cap Fund

Schedule of Investments (Continued)

December 31, 2009

| | Shares | Fair Value | | Shares | Fair Value |
|---|--------|---------------------|---|-----------|----------------------|
| Common Stocks — 82.4% continued | | | Registered Investment Companies — 37.7% | | |
| Financial — 17.3% continued | | | JPMorgan Prime Money Market | | |
| Mid-America Apartment Communities, Inc. REIT ^o | 3,990 | \$ 192,637 | Fund-Capital Shares ^{††} | 7,671,915 | \$ 7,671,915 |
| National Penn Bancshares, Inc. | 30,190 | 174,800 | JPMorgan U.S. Government Money Market Fund-Capital Shares | 7,065,035 | 7,065,035 |
| Old Republic International Corp. ^o | 94,295 | 946,722 | Total Registered Investment Companies | | \$ 14,736,950 |
| SunTrust Banks, Inc. | 14,610 | 296,437 | | | |
| United Fire & Casualty Co. ^o | 9,384 | 171,070 | Total Investment Securities — 120.1% | | |
| | | <u>6,764,280</u> | (Cost \$42,363,050)** | | \$ 46,954,667 |
| Health Care — 8.2% | | | Net Other Assets | | |
| Analogic Corp. ^o | 4,035 | 155,388 | (Liabilities) — (20.1%) | | (7,867,647) |
| Cardinal Health, Inc. | 19,570 | 630,937 | | | |
| Forest Laboratories, Inc.* | 19,645 | 630,801 | Net Assets — 100.0% | | \$ 39,087,020 |
| King Pharmaceuticals, Inc.* | 91,140 | 1,118,288 | | | |
| LifePoint Hospitals, Inc.* ^o | 14,415 | 468,631 | | | |
| STERIS Corp. | 6,990 | 195,510 | | | |
| | | <u>3,199,555</u> | | | |
| Industrial — 10.9% | | | | | |
| AirTran Holdings, Inc.* ^o | 56,785 | 296,418 | | | |
| Avery Dennison Corp. ^o | 11,760 | 429,122 | | | |
| Brink's Co., The | 17,400 | 423,516 | | | |
| Dover Corp. | 29,160 | 1,213,347 | | | |
| Fluor Corp. | 9,600 | 432,384 | | | |
| HUB Group, Inc., Class A* | 16,860 | 452,354 | | | |
| Southwest Airlines Co. ^o | 34,130 | 390,106 | | | |
| Toro Co. ^o | 6,345 | 265,284 | | | |
| Trinity Industries, Inc. ^o | 19,590 | 341,650 | | | |
| | | <u>4,244,181</u> | | | |
| Information Technology — 5.2% | | | | | |
| Alliance Data Systems Corp.* ^o | 5,620 | 362,996 | | | |
| KLA-Tencor Corp. | 16,635 | 601,521 | | | |
| Verigy Ltd.* | 82,340 | 1,059,716 | | | |
| | | <u>2,024,233</u> | | | |
| Utilities — 5.5% | | | | | |
| Cleco Corp. ^o | 21,630 | 591,148 | | | |
| Energen Corp. | 8,170 | 382,356 | | | |
| UGI Corp. | 27,060 | 654,581 | | | |
| WGL Holdings, Inc. | 15,865 | 532,112 | | | |
| | | <u>2,160,197</u> | | | |
| Total Common Stocks | | <u>\$32,217,717</u> | | | |

* Non-income producing security.

** Represents cost for financial reporting purposes.

^o All or a portion of the security is on loan. The total fair value of the securities on loan, as of December 31, 2009, was \$7,348,856.

^{††} This security, which was purchased using cash collateral received from securities on loan, represents collateral for securities loaned as of December 31, 2009.

REIT – Real Estate Investment Trust

See accompanying Notes to Financial Statements.

Diamond Hill Large Cap Fund

Schedule of Investments

December 31, 2009

| | Shares | Fair Value | | Shares | Fair Value |
|--------------------------------------|---------|---------------|--|------------|---------------|
| Common Stocks — 93.7% | | | Health Care — 19.2% continued | | |
| Consumer Discretionary — 1.9% | | | Pfizer, Inc. | | |
| Hanesbrands, Inc.* ^o | 1,828 | \$ 44,073 | | 1,171,325 | \$ 21,306,402 |
| McDonald's Corp. | 220,615 | 13,775,201 | | 509,920 | 15,542,361 |
| | | 13,819,274 | | | 138,098,443 |
| Consumer Staples — 14.8% | | | Industrial — 14.5% | | |
| ConAgra Foods, Inc. | 611,445 | 14,093,807 | Avery Dennison Corp. | 282,460 | 10,306,965 |
| General Mills, Inc. | 198,835 | 14,079,506 | Dover Corp. | 330,705 | 13,760,635 |
| Kimberly-Clark Corp. | 224,810 | 14,322,645 | Fluor Corp. | 146,075 | 6,579,218 |
| PepsiCo, Inc. | 236,580 | 14,384,064 | Illinois Tool Works, Inc. | 298,000 | 14,301,020 |
| Procter & Gamble Co., The | 352,615 | 21,379,048 | Parker Hannifin Corp. | 266,105 | 14,337,738 |
| Sysco Corp. | 487,710 | 13,626,617 | Raytheon Co. | 196,630 | 10,130,378 |
| Wal-Mart Stores, Inc. | 268,075 | 14,328,609 | Southwest Airlines Co. ^o | 835,000 | 9,544,050 |
| | | 106,214,296 | United Technologies Corp. | 359,635 | 24,962,265 |
| | | | | | 103,922,269 |
| Energy — 18.8% | | | Information Technology — 8.5% | | |
| Anadarko Petroleum Corp. | 450,305 | 28,108,038 | Alliance Data Systems Corp.* ^o | 99,350 | 6,417,017 |
| Apache Corp. | 317,650 | 32,771,950 | Cisco Systems, Inc.* | 603,195 | 14,440,488 |
| Devon Energy Corp. | 393,401 | 28,914,974 | Dell, Inc.* | 759,325 | 10,903,907 |
| Occidental Petroleum Corp. | 346,847 | 28,216,003 | KLA-Tencor Corp. ^o | 287,225 | 10,386,056 |
| Transocean, Ltd.* | 84,935 | 7,032,618 | Microsoft Corp. | 615,460 | 18,765,375 |
| XTO Energy, Inc. | 216,547 | 10,075,932 | | | 60,912,843 |
| | | 135,119,515 | Utilities — 2.4% | | |
| Financial — 13.6% | | | Dominion Resources, Inc. | 433,280 | 16,863,258 |
| Allstate Corp. | 240,725 | 7,231,379 | Total Common Stocks | | |
| Bank of New York Mellon Corp. | 359,811 | 10,063,914 | | | \$672,909,372 |
| JPMorgan Chase & Co. | 242,990 | 10,125,393 | Registered Investment Companies — 10.9% | | |
| Marsh & McLennan Cos., Inc. | 468,640 | 10,347,571 | JPMorgan Prime Money | | |
| Prudential Financial, Inc. | 276,520 | 13,759,635 | Market Fund-Capital Shares ^{††} | 78,379,229 | \$ 78,379,229 |
| SunTrust Banks, Inc. ^o | 530,815 | 10,770,236 | Total Investment Securities — 104.6% | | |
| Travelers Cos., Inc., The | 291,120 | 14,515,243 | (Cost \$675,935,400)** | | \$751,288,601 |
| U.S. Bancorp | 305,450 | 6,875,680 | Net Other Assets | | |
| Wells Fargo & Co. | 528,730 | 14,270,423 | (Liabilities) — (4.6%) | | |
| | | 97,959,474 | Net Assets — 100.0% | | |
| Health Care — 19.2% | | | \$717,907,124 | | |
| Abbott Laboratories | 407,790 | 22,016,582 | * Non-income producing security. | | |
| Baxter International, Inc. | 242,600 | 14,235,768 | ** Represents cost for financial reporting purposes. | | |
| Cardinal Health, Inc. | 249,370 | 8,039,689 | ^o All or a portion of the security is on loan. The total fair value of the securities on loan, as of December 31, 2009, was \$13,626,550. | | |
| Johnson & Johnson | 278,275 | 17,923,693 | ^{††} A portion of this security, which was purchased using cash collateral received from securities on loan, represents collateral for securities loaned as of December 31, 2009. The total fair value of the collateral is \$14,009,647. | | |
| Medtronic, Inc. | 566,962 | 24,934,989 | See accompanying Notes to Financial Statements. | | |
| Merck & Co., Inc. | 385,850 | 14,098,959 | | | |

Diamond Hill Select Fund

Schedule of Investments

December 31, 2009

| | Shares | Fair Value | | Shares | Fair Value |
|--------------------------------------|--------|------------------|--|-----------|---------------------|
| Common Stocks — 89.8% | | | Industrial — 11.7% | | |
| Consumer Discretionary — 2.5% | | | AirTran Holdings, Inc.*° | | |
| Hanesbrands, Inc.*° | 186 | \$ 4,484 | Dover Corp. | 37,360 | \$ 195,019 |
| McDonald's Corp. | 13,300 | 830,452 | Illinois Tool Works, Inc. | 21,243 | 1,019,452 |
| | | <u>834,936</u> | Parker Hannifin Corp.° | 8,560 | 461,213 |
| | | | Trinity Industries, Inc.° | 8,155 | 142,223 |
| Consumer Staples — 14.3% | | | United Technologies Corp. | 16,025 | 1,112,295 |
| ConAgra Foods, Inc. | 46,338 | 1,068,091 | | | <u>3,936,540</u> |
| General Mills, Inc. | 9,055 | 641,184 | Information Technology — 9.2% | | |
| PepsiCo, Inc. | 7,420 | 451,136 | Cisco Systems, Inc.* | 35,485 | 849,511 |
| Procter & Gamble Co., The | 16,495 | 1,000,092 | KLA-Tencor Corp.° | 19,710 | 712,714 |
| Sysco Corp.° | 39,850 | 1,113,409 | Microsoft Corp. | 31,405 | 957,538 |
| Wal-Mart Stores, Inc. | 9,485 | 506,973 | Verigy Ltd.* | 44,405 | 571,492 |
| | | <u>4,780,885</u> | | | <u>3,091,255</u> |
| Energy — 16.9% | | | Utilities — 2.5% | | |
| Anadarko Petroleum Corp. | 15,515 | 968,446 | Dominion Resources, Inc.° | 21,155 | 823,353 |
| Apache Corp. | 11,310 | 1,166,853 | | | |
| Cimarex Energy Co.° | 13,145 | 696,291 | Total Common Stocks | | |
| Devon Energy Corp. | 13,715 | 1,008,052 | | | \$30,063,265 |
| Exterran Holdings, Inc.*° | 22,045 | 472,865 | Registered Investment Companies — 22.9% | | |
| Occidental Petroleum Corp. | 12,265 | 997,758 | JPMorgan Prime Money Market | | |
| Southwestern Energy Co.* | 7,005 | 337,641 | Fund-Capital Shares ^{††} | 7,683,684 | \$ 7,683,684 |
| | | <u>5,647,906</u> | | | |
| Financial — 12.0% | | | Total Investment Securities — 112.7% | | |
| Assurant, Inc. | 10,070 | 296,864 | (Cost \$34,101,712)** | | \$37,746,949 |
| Assured Guaranty Ltd.° | 38,440 | 836,454 | Net Other Assets | | |
| Prudential Financial, Inc. | 12,350 | 614,536 | (Liabilities) — (12.7%) | | |
| Travelers Cos., Inc., The | 17,135 | 854,351 | | | (4,242,924) |
| U.S. Bancorp | 25,515 | 574,343 | Net Assets — 100.0% | | |
| Wells Fargo & Co. | 31,215 | 842,493 | | | \$33,504,025 |
| | | <u>4,019,041</u> | | | |
| Health Care — 20.7% | | | | | |
| Abbott Laboratories | 18,700 | 1,009,613 | | | |
| Baxter International, Inc. | 18,625 | 1,092,915 | | | |
| Cardinal Health, Inc.° | 19,105 | 615,945 | | | |
| Johnson & Johnson | 9,800 | 631,218 | | | |
| Medtronic, Inc. | 26,576 | 1,168,812 | | | |
| Merck & Co., Inc. | 18,280 | 667,951 | | | |
| Pfizer, Inc. | 50,830 | 924,598 | | | |
| UnitedHealth Group, Inc. | 26,847 | 818,297 | | | |
| | | <u>6,929,349</u> | | | |

* Non-income producing security.

** Represents cost for financial reporting purposes.

° All or a portion of the security is on loan. The total fair value of the securities on loan, as of December 31, 2009, was \$4,112,893.

†† A portion of this security, which was purchased using cash collateral received from securities on loan, represents collateral for securities loaned as of December 31, 2009. The total fair value of the collateral is \$4,279,958.

See accompanying Notes to Financial Statements.

Diamond Hill Long-Short Fund

Schedule of Investments

December 31, 2009

| | Shares | Fair Value | | Shares | Fair Value |
|--------------------------------------|-----------|---------------|--|-------------|-----------------|
| Common Stocks — 92.5% | | | Industrial — 13.9% | | |
| Consumer Discretionary — 2.0% | | | | | |
| Hanesbrands, Inc.*† | 5,787 | \$ 139,524 | AirTran Holdings, Inc.*† | 531,471 | \$ 2,774,279 |
| McDonald's Corp.† | 619,529 | 38,683,391 | Avery Dennison Corp. | 732,754 | 26,738,193 |
| | | 38,822,915 | Dover Corp.† | 1,056,055 | 43,942,449 |
| | | | Fluor Corp.† | 378,245 | 17,036,155 |
| Consumer Staples — 13.4% | | | Illinois Tool Works, Inc.† | 806,360 | 38,697,216 |
| ConAgra Foods, Inc.† | 1,978,570 | 45,606,038 | Parker Hannifin Corp.° | 717,775 | 38,673,717 |
| General Mills, Inc.† | 641,386 | 45,416,543 | Raytheon Co.° | 575,692 | 29,659,652 |
| PepsiCo, Inc.° | 664,330 | 40,391,264 | Trinity Industries, Inc.°† | 431,097 | 7,518,332 |
| Procter & Gamble Co., The | 1,003,195 | 60,823,713 | United Technologies Corp.† | 977,055 | 67,817,387 |
| Sysco Corp.† | 1,183,457 | 33,065,788 | | | 272,857,380 |
| Wal-Mart Stores, Inc. | 701,975 | 37,520,564 | Information Technology — 9.4% | | |
| | | 262,823,910 | Alliance Data Systems Corp.*° | 285,330 | 18,429,465 |
| | | | Cisco Systems, Inc.*† | 1,895,325 | 45,374,080 |
| Energy — 20.1% | | | Dell, Inc.* | 1,883,060 | 27,040,742 |
| Anadarko Petroleum Corp.† | 1,116,620 | 69,699,420 | KLA-Tencor Corp.° | 1,032,018 | 37,317,771 |
| Apache Corp.† | 918,431 | 94,754,526 | Microsoft Corp.† | 1,843,935 | 56,221,578 |
| Cimarex Energy Co.° | 560,005 | 29,663,465 | | | 184,383,636 |
| Devon Energy Corp.† | 919,895 | 67,612,283 | Utilities — 2.7% | | |
| Occidental Petroleum Corp.† | 1,043,998 | 84,929,237 | Dominion Resources, Inc.° | 1,353,830 | 52,691,064 |
| Transocean, Ltd.*† | 183,386 | 15,184,361 | | | |
| XTO Energy, Inc.† | 672,290 | 31,281,654 | Total Common Stocks | | |
| | | 393,124,946 | | | \$1,809,555,518 |
| Financial — 11.3% | | | Registered Investment Companies — 14.6% | | |
| Assurant, Inc. | 620,240 | 18,284,675 | JPMorgan Prime Money Market | | |
| Assured Guaranty Ltd.°† | 1,763,090 | 38,364,838 | Fund-Capital Shares†† | 286,052,427 | \$286,052,427 |
| Prudential Financial, Inc.° | 811,085 | 40,359,590 | Total Investment Securities — 107.1% | | |
| SunTrust Banks, Inc.° | 1,141,520 | 23,161,441 | (Cost \$1,846,817,630)** | | \$2,095,607,945 |
| Travelers Cos., Inc., The | 855,830 | 42,671,684 | Segregated Cash | | |
| U.S. Bancorp† | 735,427 | 16,554,462 | With Brokers — 36.2% | | |
| Wells Fargo & Co. | 1,520,560 | 41,039,914 | | | 707,012,779 |
| | | 220,436,604 | Securities Sold Short — (35.6%) | | |
| | | | (Proceeds \$577,880,426) | | (695,737,352) |
| Health Care — 19.7% | | | Net Other Assets | | |
| Abbott Laboratories† | 1,183,475 | 63,895,815 | (Liabilities) — (7.7%) | | |
| Baxter International, Inc. | 640,675 | 37,594,809 | | | (151,147,097) |
| Cardinal Health, Inc.† | 751,960 | 24,243,190 | Net Assets — 100.0% | | |
| Johnson & Johnson† | 612,185 | 39,430,836 | | | \$1,955,736,275 |
| Medtronic, Inc.°† | 1,590,052 | 69,930,487 | | | |
| Merck & Co., Inc. | 1,144,235 | 41,810,347 | | | |
| Pfizer, Inc. | 3,175,470 | 57,761,799 | | | |
| UnitedHealth Group, Inc.† | 1,632,145 | 49,747,780 | | | |
| | | 384,415,063 | | | |

* Non-income producing security.

** Represents cost for financial reporting purposes.

° All or a portion of the security is on loan. The total fair value of the securities on loan, as of December 31, 2009, was \$140,622,354.

† Security position is either entirely or partially held in a segregated account as collateral for securities sold short aggregating a total market value of \$804,903,292.

†† A portion of this security, which was purchased using cash collateral received from securities on loan, represents collateral for securities loaned as of December 31, 2009. The total fair value of the collateral is \$145,995,572.

See accompanying Notes to Financial Statements.

Diamond Hill Long-Short Fund

Schedule of Securities Sold Short

December 31, 2009

| | Shares | Fair Value |
|---------------------------------------|--------------------|---------------|
| Common Stocks — 33.2% | | |
| Consumer Discretionary — 15.6% | | |
| Amazon.com, Inc. * | 202,590 | \$ 27,252,407 |
| Career Education Corp. * | 1,753,620 | 40,876,882 |
| CarMax, Inc. * | 651,970 | 15,810,272 |
| Chipotle Mexican Grill, Inc. * | 84,240 | 7,426,598 |
| Gap, Inc., The | 444,035 | 9,302,533 |
| Gymboree Corp. * | 602,750 | 26,213,598 |
| J.C. Penney Co., Inc. | 243,990 | 6,492,574 |
| Jo-Ann Stores, Inc. * | 294,010 | 10,654,922 |
| Life Time Fitness, Inc. * | 360,724 | 8,992,849 |
| Macy's, Inc. | 740,650 | 12,413,294 |
| MGM Mirage * | 3,490,821 | 31,836,288 |
| NetFlix, Inc. * | 143,265 | 7,899,632 |
| Nordstrom, Inc. | 396,330 | 14,894,081 |
| Royal Caribbean Cruises Ltd. * | 1,179,190 | 29,809,923 |
| Sally Beauty Holdings, Inc. * | 1,521,610 | 11,640,317 |
| Tractor Supply Co. * | 598,128 | 31,676,859 |
| Urban Outfitters, Inc. * | 363,620 | 12,723,064 |
| | <u>305,916,093</u> | |

Consumer Staples — 4.5%

| | | |
|-----------------------------|-------------------|------------|
| BJ's Wholesale Club, Inc. * | 220,587 | 7,215,401 |
| Colgate-Palmolive Co. | 395,646 | 32,502,319 |
| Dean Foods Co. * | 923,048 | 16,651,786 |
| H.J. Heinz Co. | 235,820 | 10,083,663 |
| Kraft Foods, Inc., Class A | 816,645 | 22,196,411 |
| | <u>88,649,580</u> | |

Financial — 0.6%

| | | |
|-----------------------------|---------|------------|
| Prosperity Bancshares, Inc. | 287,385 | 11,630,471 |
|-----------------------------|---------|------------|

Health Care — 5.7%

| | | |
|---------------------------------------|--------------------|------------|
| Covance, Inc. * | 342,575 | 18,694,318 |
| Laboratory Corp of America Holdings * | 598,488 | 44,790,842 |
| Omnicare, Inc. | 1,258,521 | 30,431,038 |
| Quest Diagnostics, Inc. | 289,850 | 17,501,143 |
| | <u>111,417,341</u> | |

Industrial — 1.8%

| | | |
|--------------------------|-------------------|------------|
| Boeing Co., The | 522,635 | 28,290,233 |
| Werner Enterprises, Inc. | 364,910 | 7,221,569 |
| | <u>35,511,802</u> | |

Information Technology — 2.3%

| | | |
|-----------------------------|-------------------|---------------|
| Akamai Technologies, Inc. * | 627,195 | \$ 15,886,849 |
| Salesforce.com, Inc. * | 398,195 | 29,374,845 |
| | <u>45,261,694</u> | |

Materials — 2.1%

| | | |
|------------------|-----------|------------|
| Dow Chemical Co. | 1,482,033 | 40,948,572 |
|------------------|-----------|------------|

Telecommunication Services — 0.6%

| | | |
|-----------------------|-----------|------------|
| Sprint Nextel Corp. * | 2,798,055 | 10,240,881 |
|-----------------------|-----------|------------|

Total Common Stocks Sold Short **\$649,576,434**

Exchange Traded Fund — 2.4%

| | | |
|---------------------|-----------|---------------|
| SPDR S&P Retail ETF | 1,296,655 | \$ 46,160,918 |
|---------------------|-----------|---------------|

Total Securities Sold Short

(Proceeds \$577,880,426) **\$695,737,352**

* Non-dividend expense producing security.

Percentages disclosed are based on total net assets of the Fund at December 31, 2009.

See accompanying Notes to Financial Statements.

Diamond Hill Financial Long-Short Fund

Schedule of Investments

December 31, 2009

| | Shares | Fair Value | | Shares | Fair Value |
|---|--------|--------------------|--|--------|--------------------|
| Preferred Stocks — 12.6% | | | Capital Markets — 5.1% | | |
| Banking Services — 8.6% | | | Bank of New York Mellon Corp.† | | |
| Huntington Bancshares, Inc., | | | 11,449 | \$ | 320,228 |
| 8.50%, Series A ^o | 363 | \$ 312,180 | Morgan Stanley† | 1,525 | 45,140 |
| National City Capital Trust IV, 8.00% | 11,890 | 297,012 | State Street Corp. | 3,403 | 148,167 |
| Regions Financing Trust III, 8.88% ^o | 2,861 | 66,490 | | | 513,535 |
| Wachovia Preferred | | | <hr/> | | |
| Funding Corp., 7.25%, Series A | 8,375 | 186,176 | Financial Services — 9.8% | | |
| | | 861,858 | Bank of America Corp. | 19,925 | 300,071 |
| <hr/> | | | JPMorgan Chase & Co. | 14,560 | 606,715 |
| Financial Services — 2.2% | | | Leucadia National Corp.* | 3,155 | 75,057 |
| Countrywide Capital V, 7.00% ^{ot} | 10,050 | 217,582 | | | 981,843 |
| <hr/> | | | <hr/> | | |
| REITs and Real Estate Management — 1.8% | | | Insurance — 30.6% | | |
| iStar Financial, Inc., 7.80% | 17,057 | 122,128 | Alleghany Corp.* ^o | 385 | 106,260 |
| LaSalle Hotel Properties, | | | Allstate Corp.† | 11,400 | 342,456 |
| 8.00%, Series E | 2,483 | 56,886 | Assurant, Inc.† | 10,995 | 324,133 |
| | | 179,014 | Assured Guaranty Ltd. ^o | 19,060 | 414,746 |
| Total Preferred Stocks | | \$1,258,454 | First American Corp. | 4,445 | 147,174 |
| <hr/> | | | Hanover Insurance Group, Inc., The ^{ot} | 1,610 | 71,532 |
| Common Stocks — 78.3% | | | Hartford Financial Services Group, Inc. | 5,060 | 117,696 |
| Asset Management — 0.5% | | | Horace Mann Educators Corp. | 16,048 | 200,600 |
| Affiliated Managers Group, Inc.* ^o | 720 | 48,492 | Marsh & McLennan Cos., Inc. | 9,180 | 202,694 |
| <hr/> | | | Old Republic International Corp. ^o | 32,495 | 326,250 |
| Banking Services — 27.7% | | | Prudential Financial, Inc. | 7,145 | 355,535 |
| BB&T Corp. | 7,170 | 181,903 | Travelers Cos., Inc., The | 7,605 | 379,185 |
| City National Corp. ^{ot} | 2,165 | 98,724 | United Fire & Casualty Co.† | 3,987 | 72,683 |
| Comerica, Inc. ^{ot} | 3,054 | 90,307 | | | 3,060,944 |
| First California Financial Group, Inc.* | 2,571 | 7,044 | <hr/> | | |
| First Financial Holdings, Inc. ^o | 11,620 | 150,944 | Other Financials — 1.0% | | |
| First Niagara Financial Group, Inc. | 8,760 | 121,852 | MVC Capital, Inc. ^o | 8,635 | 101,893 |
| First of Long Island Corp. ^o | 4,420 | 111,605 | <hr/> | | |
| Huntington Bancshares, Inc.† | 37,540 | 137,021 | REITs and Real Estate Management — 3.6% | | |
| National Penn Bancshares, Inc. ^o | 33,930 | 196,455 | Mid-America Apartment | | |
| PNC Financial Services Group, Inc.† | 6,135 | 323,867 | Communities, Inc. REIT ^{ot} | 2,471 | 119,300 |
| Seacoast Banking Corp of Florida | 7,210 | 11,752 | Redwood Trust, Inc. REIT ^o | 16,360 | 236,565 |
| SunTrust Banks, Inc. ^o | 11,239 | 228,039 | | | 355,865 |
| Synovus Financial Corp. ^{ot} | 27,930 | 57,256 | <hr/> | | |
| U.S. Bancorp† | 17,142 | 385,866 | Total Common Stocks | | |
| Wells Fargo & Co.† | 25,035 | 675,695 | | | \$7,840,902 |
| | | 2,778,330 | <hr/> | | |

Diamond Hill Financial Long-Short Fund
Schedule of Investments (Continued)
December 31, 2009

| | Shares/ Par Value | Fair Value |
|--|----------------------|---------------------|
| Corporate Bonds — 3.3% | | |
| Banking Services — 3.3% | | |
| AmSouth Bank, 5.20%, 4/1/15 | 120,000 | \$ 103,974 |
| First Horizon National Corp., 4.50%, 5/15/13 | 250,000 | 225,937 |
| Total Corporate Bonds | | \$ 329,911 |
| Registered Investment Companies — 21.2% | | |
| JPMorgan Prime Money Market Fund-Capital Shares ^{††} | 1,860,669 | 1,860,669 |
| JPMorgan U.S. Government Money Market Fund- Capital Shares | 268,536 | 268,536 |
| Total Registered Investment Companies | | \$ 2,129,205 |
| Total Investment Securities — 115.4% (Cost \$10,214,343)** | | \$11,558,472 |
| Segregated Cash With Brokers — 6.2% | | 621,565 |
| Securities Sold Short — (8.4%) (Proceeds \$883,244) | | (839,614) |
| Net Other Assets (Liabilities) — (13.2%) | | (1,321,655) |
| Net Assets — 100.0% | | \$10,018,768 |

* Non-income producing security.

** Represents cost for financial reporting purposes.

° All or a portion of the security is on loan. The total fair value of the securities on loan, as of December 31, 2009, was \$1,786,439.

† Security position is either entirely or partially held in a segregated account as collateral for securities sold short aggregating a total fair value of \$2,437,150.

†† This security, which was purchased using cash collateral received from securities on loan, represents collateral for securities loaned as of December 31, 2009.

REIT – Real Estate Investment Trust

See accompanying Notes to Financial Statements.

Diamond Hill Financial Long-Short Fund
Schedule of Securities Sold Short
December 31, 2009

| | Shares | Fair Value |
|--|--------|------------------|
| Common Stocks — 8.4% | | |
| Banking Services — 7.7% | | |
| First Financial Bankshares, Inc. | 2,825 | \$153,200 |
| Hancock Holding Co. | 2,455 | 107,504 |
| Home Bancshares, Inc. | 6,410 | 154,289 |
| M&T Bank Corp. | 1,625 | 108,696 |
| Prosperity Bancshares, Inc. | 4,312 | 174,507 |
| WesBanco, Inc. | 6,150 | 75,891 |
| | | 774,087 |
| Capital Markets — 0.7% | | |
| KBW, Inc.* | 2,395 | 65,527 |
| Total Securities Sold Short (Proceeds \$883,244) | | \$839,614 |

* Non-dividend expense producing security.

Percentages disclosed are based on total net assets of the Fund at December 31, 2009.

Diamond Hill Strategic Income Fund

Schedule of Investments

December 31, 2009

| | Shares/ Par Value | Fair Value | | Par Value | Fair Value |
|---|----------------------|---------------------|-----------|------------------|---------------|
| Common Stock — 0.2% | | | | | |
| Real Estate Investment Trusts (REITs) — 0.2% | | | | | |
| iStar Financial, Inc.* ^o | 94,500 | \$ 241,920 | | | |
| Collateralized Debt Obligations — 0.4% | | | | | |
| Alesco Preferred Funding III [†] | 724,100 | 82,634 | | | |
| Alesco Preferred Funding Ltd., Series 6A, Class PPNE* [†] | 336,608 | 67,759 | | | |
| Alesco Preferred Funding Ltd. IV* [†] | 3,373 | 4,014 | | | |
| Alesco Preferred Funding Ltd. V* [†] | 802 | 1,003 | | | |
| Alesco Preferred Funding VI PNN* [†] | 621,631 | 125,769 | | | |
| Fort Sheridan ABS CDO Ltd., Series 2005-1A, Class PPN2 [†] | 611,948 | 101,216 | | | |
| Taberna Preferred Funding Ltd., Series 2005-1A, Class PPN2* [†] | 1,175,564 | 170,433 | | | |
| Total Collateralized Debt Obligations | | \$ 552,828 | | | |
| Preferred Stocks — 6.5% | | | | | |
| Countrywide Capital V, 7.00% ^o | 94,600 | 2,048,090 | | | |
| Eagle Hospitality Properties Trust, Inc., 8.25%, Series A* ^o | 21,007 | 5,252 | | | |
| Innkeepers USA Trust, 8.00%, Series C* ^o | 93,250 | 97,913 | | | |
| iStar Financial, Inc., 7.80%, Series F ^o | 138,500 | 991,660 | | | |
| National City Capital Trust IV, 8.00% ^o | 50,300 | 1,256,494 | | | |
| Wachovia Preferred Funding Corp., 7.25%, Series A ^o | 62,550 | 1,390,486 | | | |
| XL Capital Ltd., 10.75% ^o | 88,000 | 2,456,960 | | | |
| Total Preferred Stocks | | \$ 8,246,855 | | | |
| Registered Investment Companies — 15.8% | | | | | |
| JPMorgan Prime Money Market Fund-Capital Shares ^{††} | 13,291,643 | \$13,291,643 | | | |
| JPMorgan U.S. Government Money Market Fund- Capital Shares | 6,871,871 | 6,871,871 | | | |
| Total Registered Investment Companies | | \$20,163,514 | | | |
| Corporate Bonds — 86.2% | | | | | |
| Consumer Discretionary — 5.2% | | | | | |
| Expedia, Inc., 8.50%, 7/1/16 ^{^o} | | | 4,500,000 | \$4,865,625 | |
| Historic TV, Inc., 8.05%, 1/15/16 | | | 1,600,000 | 1,770,312 | |
| | | | | 6,635,937 | |
| Consumer Staples — 7.5% | | | | | |
| Chattem, Inc., 7.00%, 3/1/14 | | | 3,200,000 | 3,288,000 | |
| Del Monte Corp., 6.75%, 2/15/15 | | | 2,700,000 | 2,754,000 | |
| Fortune Brands, Inc., 4.88%, 12/1/13 ^o | | | 3,475,000 | 3,549,473 | |
| | | | | 9,591,473 | |
| Energy — 2.2% | | | | | |
| Cimarex Energy Co., 7.13%, 5/1/17 ^o | | | 2,790,000 | 2,817,900 | |
| Financial — 43.6% | | | | | |
| American Express Co., 7.00%, 3/19/18 | | | 2,000,000 | 2,202,544 | |
| AmSouth Bank, Series AI, 4.85%, 4/1/13 | | | 4,490,000 | 3,932,597 | |
| CNA Financial Corp., 6.50%, 8/15/16 ^o | | | 2,935,000 | 2,885,008 | |
| Fifth Third Bancorp, 5.45%, 1/15/17 | | | 5,575,000 | 4,990,952 | |
| First Tennessee National Corp., 4.50%, 5/15/13 | | | 1,400,000 | 1,265,246 | |
| First Tennessee Bank NA, 5.05%, 1/15/15 | | | 1,150,000 | 999,680 | |
| First Tennessee Bank NA, 5.65%, 4/1/16 | | | 3,130,000 | 2,714,790 | |
| Fund American Co., 5.88%, 5/15/13 ^o | | | 2,800,000 | 2,794,036 | |
| Hartford Financial Services Group, Inc., 6.30%, 3/15/18 ^o | | | 4,900,000 | 4,886,309 | |
| Horace Mann Educators Corp., 6.85%, 4/15/16 ^o | | | 3,490,000 | 3,477,506 | |
| KeyBank NA, 7.41%, 5/6/15 | | | 4,585,000 | 4,403,979 | |
| Marsh & McLennan Cos., Inc., 5.75%, 9/15/15 | | | 3,000,000 | 3,129,807 | |
| National City Bank, 5.25%, 12/15/16 | | | 3,600,000 | 3,582,119 | |
| Nuveen Investments, Inc., 10.50%, 11/15/15 | | | 3,000,000 | 2,722,500 | |

Diamond Hill Strategic Income Fund

Schedule of Investments (Continued)

December 31, 2009

| | Par Value | Fair Value |
|---|--------------|----------------------|
| Corporate Bonds — 86.2% continued | | |
| Financial — 43.6% continued | | |
| Prudential Financial, Inc., Series B MTN, 5.10%, 9/20/14 | 4,720,000 | \$ 4,906,193 |
| Transatlantic Holdings, Inc., 5.75%, 12/14/15 | 5,075,000 | 4,976,758 |
| Wachovia Corp., 5.75%, 6/15/17 ^o | 1,635,000 | 1,700,331 |
| | | <u>55,570,355</u> |
| Industrial — 5.4% | | |
| BE Aerospace, Inc., 8.50%, 7/1/18 | 4,620,000 | 4,897,200 |
| ITT Corp., 7.50%, 7/1/11 | 40,000 | 40,117 |
| Trinity Industries, Inc., 6.50%, 3/15/14 | 1,980,000 | 1,992,375 |
| | | <u>6,929,692</u> |
| Information Technology — 7.7% | | |
| KLA-Tencor Corp., 6.90%, 5/1/18 | 4,478,000 | 4,711,487 |
| National Semiconductor Corp., 6.60%, 6/15/17 | 4,975,000 | 5,096,191 |
| | | <u>9,807,678</u> |
| Materials — 6.4% | | |
| Freeport-McMoRan Copper & Gold, Inc., 8.25%, 4/1/15 ^o | 5,050,000 | 5,504,500 |
| Martin Marietta Materials, Inc., 6.60%, 4/15/18 | 2,500,000 | 2,573,437 |
| | | <u>8,077,937</u> |
| Utilities — 8.2% | | |
| CenterPoint Energy, Inc., 5.95%, 2/1/17 ^o | 2,525,000 | 2,504,373 |
| Dominion Resources, Inc., Series C, 5.15%, 7/15/15 ^o | 2,500,000 | 2,645,928 |
| Energy Transfer Partners LP, 5.95%, 2/1/15 ^o | 1,700,000 | 1,801,325 |
| Enterprise Products Operating LLC, Series O, 9.75%, 1/31/14 ^o | 1,450,000 | 1,730,543 |
| Kaneb Pipeline Operating Partnership LP, 7.75%, 2/15/12 | 1,700,000 | 1,805,439 |
| | | <u>10,487,608</u> |
| Total Corporate Bonds | | <u>\$109,918,580</u> |

Total Investment Securities — 109.1%
(Cost \$138,727,788)** \$139,123,697

**Liabilities In Excess
Of Other Assets — (9.1%)** (11,548,495)

Net Assets — 100.0% \$127,575,202

* Non-income producing security.

** Represents cost for financial reporting purposes.

^o All or a portion of the security is on loan. The total fair value of the securities on loan, as of December 31, 2009, was \$12,929,007.

[†] Restricted and illiquid securities valued at fair value and not registered under the Securities Act of 1933 are as follows:

| | Acquisition Date | Current Cost | Fair Value | Value as a % of Net Assets |
|---|---------------------|---------------------|-------------------|----------------------------------|
| Alesco Preferred Funding III | March-05 | \$ 724,100 | \$ 82,634 | 0.1% |
| Alesco Preferred Funding Ltd., Series 6A, Class PPNE | May-05 | 336,608 | 67,759 | 0.0% |
| Alesco Preferred Funding Ltd. IV | May-05 | 337,337 | 4,014 | 0.0% |
| Alesco Preferred Funding Ltd. V | October-04 | 80,180 | 1,003 | 0.0% |
| Alesco Preferred Funding VI PNN | March-05 | 621,630 | 125,769 | 0.1% |
| Fort Sheridan ABS CDO Ltd., Series 2005-1A, Class PPN2 | March-05 | 509,309 | 101,216 | 0.1% |
| Taberna Preferred Funding Ltd., Series 2005-1A, Class PPN2 | March-05 | 1,034,836 | 170,433 | 0.1% |
| | | <u>\$ 3,644,000</u> | <u>\$ 552,828</u> | <u>0.4%</u> |

^{††} This security, which was purchased using cash collateral received from securities on loan, represents collateral for securities loaned as of December 31, 2009.

[^] Restricted securities not registered under the Securities Act of 1933 and deemed liquid are as follows:

| | Acquisition Date | Current Cost | Fair Value | Value as a % of Net Assets |
|---------------|---------------------|-----------------|---------------|----------------------------------|
| Expedia, Inc. | October-08 | \$ 3,853,322 | \$ 4,865,625 | 3.8% |

See accompanying Notes to Financial Statements.

Diamond Hill Funds
 Statements of Assets & Liabilities
 December 31, 2009

| | Small Cap Fund | Small-Mid Cap Fund | Large Cap Fund | Select Fund |
|--|-----------------------|--------------------------|-----------------------|----------------------|
| Assets | | | | |
| Investment securities, at cost | \$ 637,897,638 | \$ 42,363,050 | \$ 675,935,400 | \$ 34,101,712 |
| Investment securities, at fair value - including \$115,591,081; \$7,348,856; \$13,626,550; and \$4,112,893 of securities loaned for the Small Cap Fund, the Small-Mid Cap Fund, the Large Cap Fund and the Select Fund, respectively. | \$ 689,153,710 | \$ 46,954,667 | \$ 751,288,601 | \$ 37,746,949 |
| Cash | - | - | 1,108 | - |
| Receivable for fund shares issued | 1,148,768 | 172,024 | 632,260 | 33,207 |
| Receivable for dividends | 352,879 | 24,377 | 1,016,132 | 43,408 |
| Total Assets | 690,655,357 | 47,151,068 | 752,938,101 | 37,823,564 |
| Liabilities | | | | |
| Return of collateral for securities on loan | 120,753,585 | 7,671,915 | 14,009,647 | 4,279,958 |
| Payable for securities purchased | 25,273 | 331,162 | 19,291,562 | - |
| Payable for fund shares redeemed | 582,797 | 14,568 | 952,737 | 2,535 |
| Payable to Investment Adviser | 375,998 | 24,158 | 349,551 | 18,630 |
| Payable to Administrator | 143,456 | 7,226 | 154,440 | 6,374 |
| Accrued distribution and service fees | 320,051 | 15,019 | 273,040 | 12,042 |
| Total Liabilities | 122,201,160 | 8,064,048 | 35,030,977 | 4,319,539 |
| Net Assets | \$ 568,454,197 | \$ 39,087,020 | \$ 717,907,124 | \$ 33,504,025 |
| Components of Net Assets | | | | |
| Paid-in capital | \$ 554,548,478 | \$ 37,935,014 | \$ 725,459,126 | \$ 32,839,062 |
| Accumulated net investment income | 365,099 | 47,684 | 3,371,996 | 160,821 |
| Accumulated net realized losses from investment transactions | (37,715,452) | (3,487,295) | (86,277,199) | (3,141,095) |
| Net unrealized appreciation on investments | 51,256,072 | 4,591,617 | 75,353,201 | 3,645,237 |
| Net Assets | \$ 568,454,197 | \$ 39,087,020 | \$ 717,907,124 | \$ 33,504,025 |
| Pricing of Class A Shares | | | | |
| Net assets attributable to Class A shares | \$ 438,721,666 | \$ 8,616,460 | \$ 344,455,902 | \$ 6,909,897 |
| Shares of beneficial interest outstanding (unlimited number of shares authorized, no par value) | 20,584,352 | 842,997 | 25,283,202 | 765,939 |
| Net asset value and redemption price per share | \$ 21.31 | \$ 10.22 | \$ 13.62 | \$ 9.02 |
| Maximum offering price per share | \$ 22.43 | \$ 10.76 | \$ 14.34 | \$ 9.49 |
| Pricing of Class C Shares | | | | |
| Net assets attributable to Class C shares | \$ 23,171,617 | \$ 4,360,566 | \$ 25,453,663 | \$ 3,472,266 |
| Shares of beneficial interest outstanding (unlimited number of shares authorized, no par value) | 1,151,660 | 436,076 | 1,931,408 | 388,330 |
| Net asset value, offering price and redemption price per share ^(A) | \$ 20.12 | \$ 10.00 | \$ 13.18 | \$ 8.94 |
| Pricing of Class I Shares | | | | |
| Net assets attributable to Class I shares | \$ 106,560,914 | \$ 26,109,994 | \$ 347,997,559 | \$ 23,121,862 |
| Shares of beneficial interest outstanding (unlimited number of shares authorized, no par value) | 4,977,387 | 2,551,893 | 25,487,586 | 2,564,485 |
| Net asset value, offering price and redemption price per share | \$ 21.41 | \$ 10.23 | \$ 13.65 | \$ 9.02 |

^(A) Redemption price per share varies based upon holding period.
 See accompanying Notes to Financial Statements.

Diamond Hill Funds
 Statements of Assets & Liabilities
 December 31, 2009

| | Long-Short Fund | Financial Long-Short Fund | Strategic Income Fund |
|--|----------------------------|--|--------------------------------------|
| Assets | | | |
| Investment securities, at cost | \$ 1,846,817,630 | \$ 10,214,343 | \$ 138,727,788 |
| Investment securities, at fair value - including \$140,622,354, \$1,786,439 and \$12,929,007 of securities loaned for the Long-Short Fund, the Financial Long-Short Fund and the Strategic Income Fund, respectively | \$ 2,095,607,945 | \$ 11,558,472 | \$ 139,123,697 |
| Cash | 145,160 | - | - |
| Deposits with brokers for securities sold short | 707,012,779 | 621,565 | - |
| Receivable for securities sold | - | 557,624 | - |
| Receivable for fund shares issued | 3,849,620 | 3,182 | 150,838 |
| Receivable for dividends and interest | 2,498,054 | 24,560 | 1,945,326 |
| Total Assets | 2,809,113,558 | 12,765,403 | 141,219,861 |
| Liabilities | | | |
| Return of collateral for securities on loan | 145,995,572 | 1,860,669 | 13,291,643 |
| Securities sold short, at value (proceeds \$577,880,426 for the Long-Short Fund and \$883,244 for the Financial Long-Short Fund) | 695,737,352 | 839,614 | - |
| Payable for securities purchased | - | - | 44,587 |
| Payable for dividends on securities sold short | 639,754 | 2,490 | - |
| Payable for fund shares redeemed | 7,833,733 | 24,853 | 152,323 |
| Payable to Investment Adviser | 1,488,023 | 8,810 | 54,348 |
| Payable to Administrator | 430,414 | 1,498 | 24,116 |
| Accrued distribution and service fees | 1,252,435 | 8,701 | 77,642 |
| Total Liabilities | 853,377,283 | 2,746,635 | 13,644,659 |
| Net Assets | \$ 1,955,736,275 | \$ 10,018,768 | \$ 127,575,202 |
| Components of Net Assets | | | |
| Paid-in capital | \$ 2,349,544,353 | \$ 24,251,794 | \$ 150,805,928 |
| Accumulated net investment income | 334,785 | 15,179 | 1,871,109 |
| Accumulated net realized losses from investment transactions | (525,076,252) | (15,635,964) | (25,497,744) |
| Net unrealized appreciation on investments | 130,933,389 | 1,387,759 | 395,909 |
| Net Assets | \$ 1,955,736,275 | \$ 10,018,768 | \$ 127,575,202 |
| Pricing of Class A Shares | | | |
| Net assets attributable to Class A shares | \$ 965,382,259 | \$ 8,052,540 | \$ 41,048,304 |
| Shares of beneficial interest outstanding (unlimited number of shares authorized, no par value) | 59,198,620 | 772,131 | 4,043,357 |
| Net asset value and redemption price per share | \$ 16.31 | \$ 10.43 | \$ 10.15 |
| Maximum offering price per share | \$ 17.17 | \$ 10.98 | \$ 10.52 |
| Pricing of Class C Shares | | | |
| Net assets attributable to Class C shares | \$ 256,445,157 | \$ 1,294,807 | \$ 22,120,243 |
| Shares of beneficial interest outstanding (unlimited number of shares authorized, no par value) | 16,502,957 | 129,595 | 2,180,096 |
| Net asset value, offering price and redemption price per share ^(A) | \$ 15.54 | \$ 9.99 | \$ 10.15 |
| Pricing of Class I Shares | | | |
| Net assets attributable to Class I shares | \$ 733,908,859 | \$ 671,421 | \$ 64,406,655 |
| Shares of beneficial interest outstanding (unlimited number of shares authorized, no par value) | 44,706,119 | 64,761 | 6,355,490 |
| Net asset value, offering price and redemption price per share | \$ 16.42 | \$ 10.37 | \$ 10.13 |

^(A) Redemption price per share varies based upon holding period.
 See accompanying Notes to Financial Statements.

Diamond Hill Funds
Statements of Operations
For the year ended December 31, 2009

| | Small Cap Fund | Small-Mid Cap Fund | Large Cap Fund | Select Fund |
|---|---------------------------|-----------------------------------|---------------------------|------------------------|
| Investment Income | | | | |
| Dividends | \$ 5,287,925 | \$ 409,463 | \$ 10,557,464 | \$ 366,092 |
| Securities lending income | 377,981 | 26,248 | 119,274 | 5,189 |
| Total Investment Income | 5,665,906 | 435,711 | 10,676,738 | 371,281 |
| Expenses | | | | |
| Investment advisory fees | 3,500,643 | 219,402 | 3,070,433 | 124,038 |
| Administration fees | 1,353,976 | 71,127 | 1,406,114 | 44,745 |
| Distribution fees - Class A | 883,542 | 18,401 | 704,444 | 11,399 |
| Distribution and service fees - Class C | 184,676 | 31,432 | 213,905 | 30,278 |
| Net Expenses | 5,922,837 | 340,362 | 5,394,896 | 210,460 |
| Net Investment Income (Loss) | (256,931) | 95,349 | 5,281,842 | 160,821 |
| Realized and Unrealized Gains (Losses) on Investments | | | | |
| Net realized gains (losses) from security transactions | (30,591,178) | 126,013 | (42,399,879) | (1,050,906) |
| Net change in unrealized appreciation/depreciation on investments | 152,197,640 | 10,341,281 | 187,761,340 | 6,173,332 |
| Net Realized and Unrealized Gains on Investments | 121,606,462 | 10,467,294 | 145,361,461 | 5,122,426 |
| Net Change in Net Assets from Operations | \$121,349,531 | \$ 10,562,643 | \$ 150,643,303 | \$ 5,283,247 |

| | Long-Short Fund | Financial Long-Short Fund | Strategic Income Fund |
|---|----------------------------|--|--------------------------------------|
| Investment Income | | | |
| Dividends | \$ 33,435,997 | \$ 306,244 | \$ 1,188,404 |
| Interest | - | 24,175 | 8,067,631 |
| Securities lending income | 296,004 | 7,322 | 41,035 |
| Total Investment Income | 33,732,001 | 337,741 | 9,297,070 |
| Expenses | | | |
| Investment advisory fees | 16,487,219 | 91,327 | 532,153 |
| Administration fees | 5,153,811 | 29,261 | 274,403 |
| Distribution fees - Class A | 2,380,191 | 17,961 | 83,508 |
| Distribution and service fees - Class C | 2,550,879 | 13,464 | 168,807 |
| Dividend expense on securities sold short | 6,825,081 | 17,120 | - |
| Net Expenses | 33,397,181 | 169,133 | 1,058,871 |
| Net Investment Income | 334,820 | 168,608 | 8,238,199 |
| Realized and Unrealized Gains (Losses) on Investments | | | |
| Net realized losses from security transactions | (411,501,248) | (4,538,905) | (2,624,805) |
| Net realized gains on closed short positions | 23,617,996 | 509,259 | - |
| Net change in unrealized appreciation/depreciation on investments | 662,358,292 | 5,867,352 | 23,787,504 |
| Net Realized and Unrealized Gains on Investments | 274,475,040 | 1,837,706 | 21,162,699 |
| Net Change in Net Assets from Operations | \$ 274,809,860 | \$ 2,006,314 | \$ 29,400,898 |

See accompanying Notes to Financial Statements.

Diamond Hill Funds
Statements of Changes in Net Assets

| | Small Cap Fund | | Small-Mid Cap Fund | | Large Cap Fund | | Select Fund | |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | For the Year Ended December 31, 2009 | For the Year Ended December 31, 2008 | For the Year Ended December 31, 2009 | For the Year Ended December 31, 2008 | For the Year Ended December 31, 2009 | For the Year Ended December 31, 2008 | For the Year Ended December 31, 2009 | For the Year Ended December 31, 2008 |
| From Operations | | | | | | | | |
| Net investment income (loss) | \$ (256,931) | \$ 2,763,134 | \$ 95,349 | \$ 365,117 | \$ 5,281,842 | \$ 6,013,969 | \$ 160,821 | \$ 166,536 |
| Net realized gains (losses) from security transactions | (30,591,178) | (2,308,521) | 126,013 | (3,617,835) | (42,399,879) | (43,718,442) | (1,050,906) | (2,536,054) |
| Net change in unrealized appreciation/depreciation on investments | 152,197,640 | (108,806,446) | 10,341,281 | (5,338,310) | 187,761,340 | (150,696,635) | 6,173,332 | (3,770,060) |
| Net Change in Net Assets from Operations | 121,349,531 | (108,351,833) | 10,562,643 | (8,591,028) | 150,643,303 | (188,401,108) | 5,283,247 | (6,139,578) |
| Distributions to Shareholders | | | | | | | | |
| From net investment income: | | | | | | | | |
| Class A | - | (2,153,299) | - | (90,512) | (343,767) | (3,435,709) | - | (44,841) |
| Class C | - | - | - | (28,964) | - | (120,551) | - | - |
| Class I | (54,353) | (472,675) | (47,498) | (242,573) | (1,566,079) | (2,471,299) | - | (125,373) |
| From net realized gains on investments: | | | | | | | | |
| Class A | - | (470,895) | - | - | - | (2,287,749) | - | (160,947) |
| Class C | - | (28,872) | - | - | - | (193,041) | - | (109,395) |
| Class I | - | (62,512) | - | - | - | (1,298,518) | - | (297,972) |
| Decrease in Net Assets from Distributions to Shareholders | (54,353) | (3,188,253) | (47,498) | (362,049) | (1,909,846) | (9,806,867) | - | (738,528) |
| From Capital Transactions | | | | | | | | |
| Class A | | | | | | | | |
| Proceeds from shares sold | 165,501,703 | 199,222,977 | 1,813,950 | 2,310,251 | 120,586,896 | 179,263,026 | 3,074,230 | 2,395,729 |
| Reinvested distributions | - | 2,222,464 | - | 85,434 | 324,714 | 5,511,832 | - | 187,573 |
| Payments for shares redeemed | (133,212,347) | (116,445,848) | (3,224,100) | (2,328,114) | (111,001,731) | (113,001,942) | (1,591,975) | (3,389,294) |
| Net Increase (Decrease) in Net Assets from Class A Share Transactions | 32,289,356 | 84,999,593 | (1,410,150) | 67,571 | 9,909,879 | 71,772,916 | 1,482,255 | (805,992) |
| Class C | | | | | | | | |
| Proceeds from shares sold | 5,040,434 | 5,572,858 | 1,013,000 | 2,009,995 | 4,801,305 | 12,575,146 | 948,652 | 696,065 |
| Reinvested distributions | - | 24,642 | - | 21,980 | - | 270,518 | - | 92,269 |
| Payments for shares redeemed | (3,440,142) | (7,239,186) | (633,515) | (873,364) | (5,732,858) | (8,884,138) | (1,644,815) | (2,414,521) |
| Net Increase (Decrease) in Net Assets from Class C Share Transactions | 1,600,292 | (1,641,686) | 379,485 | 1,158,611 | (931,553) | 3,961,526 | (696,163) | (1,626,187) |
| Class I | | | | | | | | |
| Proceeds from shares sold | 66,954,429 | 42,364,484 | 7,136,181 | 14,556,970 | 180,703,538 | 158,870,883 | 13,945,012 | 9,850,983 |
| Reinvested distributions | 36,435 | 423,505 | 44,093 | 229,598 | 1,357,132 | 3,036,004 | - | 347,993 |
| Payments for shares redeemed | (18,310,499) | (22,610,538) | (2,869,276) | (13,183,348) | (38,625,467) | (43,503,585) | (1,395,089) | (4,424,728) |
| Net Increase in Net Assets from Class I Share Transactions | 48,680,365 | 20,177,451 | 4,310,998 | 1,603,220 | 143,435,203 | 118,403,302 | 12,549,923 | 5,774,248 |
| Total Increase (Decrease) in Net Assets | 203,865,191 | (8,004,728) | 13,795,478 | (6,123,675) | 301,146,986 | (4,070,231) | 18,619,262 | (3,536,037) |
| Net Assets | | | | | | | | |
| Beginning of year | 364,589,006 | 372,593,734 | 25,291,542 | 31,415,217 | 416,760,138 | 420,830,369 | 14,884,763 | 18,420,800 |
| End of year | \$ 568,454,197 | \$ 364,589,006 | \$ 39,087,020 | \$ 25,291,542 | \$ 717,907,124 | \$ 416,760,138 | \$ 33,504,025 | \$ 14,884,763 |
| Accumulated Net Investment Income | \$ 365,099 | \$ 65,769 | \$ 47,684 | \$ 4,010 | \$ 3,371,996 | \$ - | \$ 160,821 | \$ - |

See accompanying Notes to Financial Statements.

Diamond Hill Funds
Statements of Changes in Net Assets

| | Long-Short Fund | | Financial Long-Short Fund | | Strategic Income Fund | |
|--|---|---|---|---|---|---|
| | For the Year Ended December 31, 2009 | For the Year Ended December 31, 2008 | For the Year Ended December 31, 2009 | For the Year Ended December 31, 2008 | For the Year Ended December 31, 2009 | For the Year Ended December 31, 2008 |
| | | | | | | |
| From Operations | | | | | | |
| Net investment income | \$ 334,820 | \$ 22,360,236 | \$ 168,608 | \$ 488,502 | \$ 8,238,199 | \$ 8,940,503 |
| Net realized losses from security transactions | (411,501,248) | (259,701,159) | (4,538,905) | (12,674,944) | (2,624,805) | (20,757,242) |
| Net realized gains on closed short positions | 23,617,996 | 128,347,041 | 509,259 | 1,386,293 | - | - |
| Net change in unrealized appreciation/ depreciation on investments | 662,358,292 | (621,467,656) | 5,867,352 | (1,364,981) | 23,787,504 | (8,353,873) |
| Net Change in Net Assets from Operations | 274,809,860 | (730,461,538) | 2,006,314 | (12,165,130) | 29,400,898 | (20,170,612) |
| Distributions to Shareholders | | | | | | |
| From net investment income: | | | | | | |
| Class A | - | (11,854,501) | (111,864) | (358,050) | (2,466,249) | (2,977,419) |
| Class C | - | (563,193) | (8,226) | (81,776) | (1,125,025) | (1,151,871) |
| Class I | (19,506) | (10,012,416) | (29,059) | (39,162) | (4,383,077) | (4,554,082) |
| From net realized gains on investments: | | | | | | |
| Class A | - | (5,059,819) | - | (5,583) | - | - |
| Class C | - | (1,333,024) | - | (1,377) | - | - |
| Class I | - | (2,974,052) | - | (510) | - | - |
| From return of capital: | | | | | | |
| Class A | - | - | - | - | - | (57,178) |
| Class C | - | - | - | - | - | (22,121) |
| Class I | - | - | - | - | - | (87,457) |
| Decrease in Net Assets from Distributions to Shareholders | (19,506) | (31,797,005) | (149,149) | (486,458) | (7,974,351) | (8,850,128) |
| From Capital Transactions | | | | | | |
| Class A | | | | | | |
| Proceeds from shares sold | 326,417,461 | 1,166,023,703 | 2,030,204 | 9,353,579 | 17,000,130 | 9,452,448 |
| Reinvested distributions | - | 15,279,830 | 101,838 | 330,275 | 1,877,048 | 2,486,233 |
| Payments for shares redeemed | (609,656,533) | (614,489,097) | (3,373,922) | (19,720,237) | (15,717,064) | (24,744,018) |
| Net Increase (Decrease) in Net Assets from Class A Share Transactions | (283,239,072) | 566,814,436 | (1,241,880) | (10,036,383) | 3,160,114 | (12,805,337) |
| Class C | | | | | | |
| Proceeds from shares sold | 33,230,041 | 154,843,092 | 244,546 | 1,622,586 | 7,386,298 | 4,746,092 |
| Reinvested distributions | - | 1,353,824 | 5,050 | 47,913 | 545,639 | 711,970 |
| Payments for shares redeemed | (92,651,580) | (78,553,460) | (926,675) | (1,430,624) | (3,935,967) | (11,150,900) |
| Net Increase (Decrease) in Net Assets from Class C Share Transactions | (59,421,539) | 77,643,456 | (677,079) | 239,875 | 3,995,970 | (5,692,838) |
| Class I | | | | | | |
| Proceeds from shares sold | 290,532,180 | 650,508,692 | 1,056,937 | 1,075,770 | 12,143,607 | 18,134,078 |
| Reinvested distributions | 12,153 | 9,295,398 | 26,688 | 32,342 | 3,541,762 | 3,635,796 |
| Payments for shares redeemed | (313,649,974) | (264,368,176) | (1,174,200) | (1,836,714) | (12,875,853) | (27,345,985) |
| Net Increase (Decrease) in Net Assets from Class I Share Transactions | (23,105,641) | 395,435,914 | (90,575) | (728,602) | 2,809,516 | (5,576,111) |
| Total Increase (Decrease) in Net Assets | (90,975,898) | 277,635,263 | (152,369) | (23,176,698) | 31,392,147 | (53,095,026) |
| Net Assets | | | | | | |
| Beginning of year | 2,046,712,173 | 1,769,076,910 | 10,171,137 | 33,347,835 | 96,183,055 | 149,278,081 |
| End of year | \$ 1,955,736,275 | \$ 2,046,712,173 | \$ 10,018,768 | \$ 10,171,137 | \$ 127,575,202 | \$ 96,183,055 |
| Accumulated Net Investment Income | \$ 334,785 | \$ 19,471 | \$ 15,179 | \$ 9,629 | \$ 1,871,109 | \$ 1,848,067 |

See accompanying Notes to Financial Statements.

Diamond Hill Funds
Schedule of Capital Share Transactions

| | Small Cap Fund | | Small-Mid Cap Fund | | Large Cap Fund | | Select Fund | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | For the Year Ended | For the Year Ended | For the Year Ended | For the Year Ended | For the Year Ended | For the Year Ended | For the Year Ended | For the Year Ended |
| | December 31, 2009 | December 31, 2008 | December 31, 2009 | December 31, 2008 | December 31, 2009 | December 31, 2008 | December 31, 2009 | December 31, 2008 |
| Shares | | | | | | | | |
| Class A Shares: | | | | | | | | |
| Issued | 9,915,026 | 10,266,061 | 206,040 | 289,014 | 11,032,156 | 13,291,568 | 388,569 | 323,220 |
| Reinvested | - | 137,839 | - | 12,084 | 23,583 | 525,497 | - | 27,267 |
| Redeemed | (8,013,473) | (5,717,870) | (404,330) | (264,232) | (10,100,394) | (8,542,167) | (213,578) | (404,382) |
| Net increase (decrease) in shares outstanding | 1,901,553 | 4,686,030 | (198,290) | 36,866 | 955,345 | 5,274,898 | 174,991 | (53,895) |
| Shares outstanding, beginning of year | 18,682,799 | 13,996,769 | 1,041,287 | 1,004,421 | 24,327,857 | 19,052,959 | 590,948 | 644,843 |
| Shares outstanding, end of year | 20,584,352 | 18,682,799 | 842,997 | 1,041,287 | 25,283,202 | 24,327,857 | 765,939 | 590,948 |
| Class C Shares: | | | | | | | | |
| Issued | 294,883 | 281,053 | 114,617 | 270,568 | 435,501 | 962,293 | 114,127 | 99,457 |
| Reinvested | - | 1,616 | - | 3,153 | - | 26,397 | - | 13,549 |
| Redeemed | (211,267) | (388,155) | (86,699) | (95,115) | (530,358) | (672,715) | (222,124) | (271,176) |
| Net increase (decrease) in shares outstanding | 83,616 | (105,486) | 27,918 | 178,606 | (94,857) | 315,975 | (107,997) | (158,170) |
| Shares outstanding, beginning of year | 1,068,044 | 1,173,530 | 408,158 | 229,552 | 2,026,265 | 1,710,290 | 496,327 | 654,497 |
| Shares outstanding, end of year | 1,151,660 | 1,068,044 | 436,076 | 408,158 | 1,931,408 | 2,026,265 | 388,330 | 496,327 |
| Class I Shares: | | | | | | | | |
| Issued | 3,702,914 | 2,084,582 | 840,763 | 1,736,017 | 15,289,754 | 11,396,090 | 1,660,685 | 1,137,816 |
| Reinvested | 1,681 | 26,236 | 4,264 | 32,475 | 98,414 | 289,028 | - | 51,050 |
| Redeemed | (1,082,213) | (1,176,261) | (336,473) | (1,485,008) | (3,381,441) | (3,369,905) | (205,003) | (520,927) |
| Net increase in shares outstanding | 2,622,382 | 934,557 | 508,554 | 283,484 | 12,006,727 | 8,315,213 | 1,455,682 | 667,939 |
| Shares outstanding, beginning of year | 2,355,005 | 1,420,448 | 2,043,339 | 1,759,855 | 13,480,859 | 5,165,646 | 1,108,803 | 440,864 |
| Shares outstanding, end of year | 4,977,387 | 2,355,005 | 2,551,893 | 2,043,339 | 25,487,586 | 13,480,859 | 2,564,485 | 1,108,803 |

See accompanying Notes to Financial Statements.

Diamond Hill Funds
Schedule of Capital Share Transactions

| | Long-Short Fund | | Financial Long-Short Fund | | Strategic Income Fund | |
|---|---|---|---|---|---|---|
| | For the Year Ended December 31, 2009 | For the Year Ended December 31, 2008 | For the Year Ended December 31, 2009 | For the Year Ended December 31, 2008 | For the Year Ended December 31, 2009 | For the Year Ended December 31, 2008 |
| | Shares | | | | | |
| Class A Shares: | | | | | | |
| Issued | 22,613,604 | 65,179,628 | 266,862 | 634,212 | 1,851,057 | 968,003 |
| Reinvested | - | 1,103,611 | 9,717 | 39,945 | 206,797 | 262,156 |
| Redeemed | (43,760,256) | (38,412,029) | (400,451) | (1,481,612) | (1,792,642) | (2,679,730) |
| Net increase (decrease) in shares outstanding | (21,146,652) | 27,871,210 | (123,872) | (807,455) | 265,212 | (1,449,571) |
| Shares outstanding, beginning of year | 80,345,272 | 52,474,062 | 896,003 | 1,703,458 | 3,778,145 | 5,227,716 |
| Shares outstanding, end of year | 59,198,620 | 80,345,272 | 772,131 | 896,003 | 4,043,357 | 3,778,145 |
| Class C Shares: | | | | | | |
| Issued | 2,381,033 | 8,794,676 | 32,612 | 128,589 | 787,746 | 480,530 |
| Reinvested | - | 100,951 | 503 | 6,051 | 60,527 | 74,559 |
| Redeemed | (6,823,760) | (5,138,019) | (133,348) | (115,460) | (449,334) | (1,141,468) |
| Net increase (decrease) in shares outstanding | (4,442,727) | 3,757,608 | (100,233) | 19,180 | 398,939 | (586,379) |
| Shares outstanding, beginning of year | 20,945,684 | 17,188,076 | 229,828 | 210,648 | 1,781,157 | 2,367,536 |
| Shares outstanding, end of year | 16,502,957 | 20,945,684 | 129,595 | 229,828 | 2,180,096 | 1,781,157 |
| Class I Shares: | | | | | | |
| Issued | 19,632,070 | 36,606,076 | 100,731 | 77,776 | 1,313,557 | 1,843,387 |
| Reinvested | 730 | 669,984 | 2,564 | 3,935 | 392,948 | 386,928 |
| Redeemed | (22,353,381) | (16,952,130) | (122,675) | (149,858) | (1,427,450) | (2,907,219) |
| Net increase (decrease) in shares outstanding | (2,720,581) | 20,323,930 | (19,380) | (68,147) | 279,055 | (676,904) |
| Shares outstanding, beginning of year | 47,426,700 | 27,102,770 | 84,141 | 152,288 | 6,076,435 | 6,753,339 |
| Shares outstanding, end of year | 44,706,119 | 47,426,700 | 64,761 | 84,141 | 6,355,490 | 6,076,435 |

See accompanying Notes to Financial Statements.

Diamond Hill Funds

Financial Highlights

For a share outstanding throughout each year.

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | Year Ended December 31, 2007 | Year Ended December 31, 2006 | Year Ended December 31, 2005 ^(A) |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|---|
| Diamond Hill Small Cap Fund - Class A | | | | | |
| Net asset value at beginning of year | \$ 16.53 | \$ 22.53 | \$ 25.03 | \$ 23.95 | \$ 21.41 |
| Income (loss) from investment operations: | | | | | |
| Net investment income (loss) | (0.01) | 0.13 | 0.08 | 0.09 | 0.02 |
| Net realized and unrealized gains (losses) on investments | 4.79 | (5.98) | (1.00) | 1.60 | 2.74 |
| Total from investment operations | 4.78 | (5.85) | (0.92) | 1.69 | 2.76 |
| Less Distributions: | | | | | |
| Dividends from net investment income | - | (0.12) | (0.08) | (0.09) | (0.01) |
| Distributions from net realized gains | - | (0.03) | (1.50) | (0.52) | (0.21) |
| Total distributions | - | (0.15) | (1.58) | (0.61) | (0.22) |
| Net asset value at end of year | \$ 21.31 | \$ 16.53 | \$ 22.53 | \$ 25.03 | \$ 23.95 |
| Total return ^(B) | 28.92% | (25.99%) | (3.79%) | 7.03% | 12.90% |
| Net assets at end of year (000s) | \$ 438,722 | \$ 308,832 | \$ 315,378 | \$ 431,524 | \$ 308,925 |
| Ratio of expenses to average net assets | 1.38% | 1.35% | 1.39% | 1.42% | 1.45% |
| Ratio of net investment income (loss) to average net assets | (0.09%) | 0.75% | 0.29% | 0.38% | 0.19% |
| Portfolio turnover rate ^(C) | 47% | 47% | 21% | 30% | 15% |
| Diamond Hill Small Cap Fund - Class C | | | | | |
| Net asset value at beginning of year | \$ 15.72 | \$ 21.44 | \$ 24.00 | \$ 23.08 | \$ 20.79 |
| Income (loss) from investment operations: | | | | | |
| Net investment loss | (0.13) | (0.01) | (0.15) | (0.10) | (0.08) |
| Net realized and unrealized gains (losses) on investments | 4.53 | (5.68) | (0.91) | 1.54 | 2.58 |
| Total from investment operations | 4.40 | (5.69) | (1.06) | 1.44 | 2.50 |
| Distributions from net realized gains | - | (0.03) | (1.50) | (0.52) | (0.21) |
| Net asset value at end of year | \$ 20.12 | \$ 15.72 | \$ 21.44 | \$ 24.00 | \$ 23.08 |
| Total return ^(B) | 27.99% | (26.55%) | (4.51%) | 6.23% | 12.05% |
| Net assets at end of year (000s) | \$ 23,172 | \$ 16,790 | \$ 25,158 | \$ 35,035 | \$ 41,115 |
| Ratio of expenses to average net assets | 2.13% | 2.11% | 2.14% | 2.17% | 2.20% |
| Ratio of net investment loss to average net assets | (0.83%) | (0.03%) | (0.46%) | (0.37%) | (0.61%) |
| Portfolio turnover rate ^(C) | 47% | 47% | 21% | 30% | 15% |
| Diamond Hill Small Cap Fund - Class I | | | | | |
| Net asset value at beginning of year | \$ 16.55 | \$ 22.57 | \$ 25.08 | \$ 23.99 | \$ 19.93 |
| Income (loss) from investment operations: | | | | | |
| Net investment income | 0.04 | 0.17 | 0.22 | 0.21 | 0.04 |
| Net realized and unrealized gains (losses) on investments | 4.83 | (5.97) | (1.05) | 1.59 | 4.27 |
| Total from investment operations | 4.87 | (5.80) | (0.83) | 1.80 | 4.31 |
| Less Distributions: | | | | | |
| Dividends from net investment income | (0.01) | (0.19) | (0.18) | (0.19) | (0.04) |
| Distributions from net realized gains | - | (0.03) | (1.50) | (0.52) | (0.21) |
| Total distributions | (0.01) | (0.22) | (1.68) | (0.71) | (0.25) |
| Net asset value at end of year | \$ 21.41 | \$ 16.55 | \$ 22.57 | \$ 25.08 | \$ 23.99 |
| Total return | 29.43% | (25.69%) | (3.41)% | 7.49% | 21.63% ^(D) |
| Net assets at end of year (000s) | \$ 106,561 | \$ 38,967 | \$ 32,057 | \$ 51,381 | \$ 35,434 |
| Ratio of expenses to average net assets | 0.99% | 0.98% | 0.98% | 0.99% | 0.99% ^(E) |
| Ratio of net investment income to average net assets | 0.30% | 1.17% | 0.69% | 0.82% | 0.74% ^(E) |
| Portfolio turnover rate ^(C) | 47% | 47% | 21% | 30% | 15% |

^(A) Class I commenced operations on April 29, 2005.

^(B) Total returns shown exclude the effect of applicable sales charges.

^(C) Portfolio turnover rate is calculated on the basis of the Fund as a whole without distinguishing between classes of shares issued.

^(D) Not annualized.

^(E) Annualized.

See accompanying Notes to Financial Statements.

Diamond Hill Funds

Financial Highlights

For a share outstanding throughout each year.

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | Year Ended December 31, 2007 | Year Ended December 31, 2006 ^(A) |
|---|------------------------------------|------------------------------------|------------------------------------|---|
| Diamond Hill Small-Mid Cap Fund - Class A | | | | |
| Net asset value at beginning of year | \$ 7.26 | \$ 10.50 | \$ 10.91 | \$ 10.00 |
| Income (loss) from investment operations: | | | | |
| Net investment income | 0.03 | 0.10 | 0.06 | 0.04 |
| Net realized and unrealized gains (losses) on investments | 2.93 | (3.25) | (0.15) | 0.94 |
| Total from investment operations | 2.96 | (3.15) | (0.09) | 0.98 |
| Less Distributions: | | | | |
| Dividends from net investment income | - | (0.09) | (0.04) | (0.01) |
| Distributions from net realized gains | - | - | (0.28) | (0.06) |
| Total distributions | - | (0.09) | (0.32) | (0.07) |
| Net asset value at end of year | \$ 10.22 | \$ 7.26 | \$ 10.50 | \$ 10.91 |
| Total return ^(B) | 40.77% | (30.01%) | (0.91%) | 9.81% |
| Net assets at end of year (000s) | \$ 8,616 | \$ 7,557 | \$ 10,549 | \$ 9,608 |
| Ratio of net expenses to average net assets | 1.33% | 1.32% | 1.33% | 1.21% |
| Ratio of net investment income to average net assets | 0.17% | 1.11% | 0.54% | 0.49% |
| Ratio of gross expenses to average net assets | 1.33% | 1.32% | 1.34% | 1.34% |
| Portfolio turnover rate ^(C) | 74% | 91% | 39% | 33% |

| | | | | |
|---|----------|----------|----------|----------|
| Diamond Hill Small-Mid Cap Fund - Class C | | | | |
| Net asset value at beginning of year | \$ 7.15 | \$ 10.40 | \$ 10.85 | \$ 10.00 |
| Income (loss) from investment operations: | | | | |
| Net investment income (loss) | (0.04) | 0.04 | (0.02) | (0.02) |
| Net realized and unrealized gains (losses) on investments | 2.89 | (3.22) | (0.15) | 0.93 |
| Total from investment operations | 2.85 | (3.18) | (0.17) | 0.91 |
| Less Distributions: | | | | |
| Dividends from net investment income | - | (0.07) | - | - |
| Distributions from net realized gains | - | - | (0.28) | (0.06) |
| Total distributions | - | (0.07) | (0.28) | (0.06) |
| Net asset value at end of year | \$ 10.00 | \$ 7.15 | \$ 10.40 | \$ 10.85 |
| Total return ^(B) | 39.86% | (30.54%) | (1.65%) | 9.08% |
| Net assets at end of year (000s) | \$ 4,361 | \$ 2,920 | \$ 2,388 | \$ 2,368 |
| Ratio of net expenses to average net assets | 2.08% | 2.05% | 2.08% | 2.00% |
| Ratio of net investment income (loss) to average net assets | (0.59%) | 0.48% | (0.21%) | (0.27%) |
| Ratio of gross expenses to average net assets | 2.08% | 2.05% | 2.09% | 2.11% |
| Portfolio turnover rate ^(C) | 74% | 91% | 39% | 33% |

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Diamond Hill Small-Mid Cap Fund - Class I | | | | |
| Net asset value at beginning of year | \$ 7.25 | \$ 10.50 | \$ 10.91 | \$ 10.00 |
| Income (loss) from investment operations: | | | | |
| Net investment income | 0.04 | 0.13 | 0.09 | 0.04 |
| Net realized and unrealized gains (losses) on investments | 2.96 | (3.26) | (0.13) | 0.98 |
| Total from investment operations | 3.00 | (3.13) | (0.04) | 1.02 |
| Less Distributions: | | | | |
| Dividends from net investment income | (0.02) | (0.12) | (0.09) | (0.05) |
| Distributions from net realized gains | - | - | (0.28) | (0.06) |
| Total distributions | (0.02) | (0.12) | (0.37) | (0.11) |
| Net asset value at end of year | \$ 10.23 | \$ 7.25 | \$ 10.50 | \$ 10.91 |
| Total return | 41.36% | (29.77%) | (0.44%) | 10.18% |
| Net assets at end of year (000s) | \$ 26,110 | \$ 14,815 | \$ 18,478 | \$ 11,986 |
| Ratio of net expenses to average net assets | 0.94% | 0.93% | 0.93% | 0.90% |
| Ratio of net investment income to average net assets | 0.54% | 1.49% | 0.97% | 1.01% |
| Ratio of gross expenses to average net assets | 0.94% | 0.93% | 0.94% | 0.98% |
| Portfolio turnover rate ^(C) | 74% | 91% | 39% | 33% |

^(A) Class A, Class C, and Class I commenced operations on December 31, 2005, and commenced public offering and investment operations on January 3, 2006.

^(B) Total returns shown exclude the effect of applicable sales charges.

^(C) Portfolio turnover rate is calculated on the basis of the Fund as a whole without distinguishing between classes of shares issued.

See accompanying Notes to Financial Statements.

Diamond Hill Funds

Financial Highlights

For a share outstanding throughout each year.

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | Year Ended December 31, 2007 | Year Ended December 31, 2006 | Year Ended December 31, 2005 ^(A) |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|---|
| Diamond Hill Large Cap Fund - Class A | | | | | |
| Net asset value at beginning of year | \$ 10.47 | \$ 16.25 | \$ 16.36 | \$ 14.44 | \$ 12.51 |
| Income (loss) from investment operations: | | | | | |
| Net investment income | 0.10 | 0.15 | 0.21 | 0.15 | 0.05 |
| Net realized and unrealized gains (losses) on investments | 3.06 | (5.69) | 0.69 | 2.03 | 1.98 |
| Total from investment operations | 3.16 | (5.54) | 0.90 | 2.18 | 2.03 |
| Less Distributions: | | | | | |
| Dividends from net investment income | (0.01) | (0.14) | (0.19) | (0.14) | (0.06) |
| Distributions from net realized gains | - | (0.10) | (0.82) | (0.12) | (0.04) |
| Total distributions | (0.01) | (0.24) | (1.01) | (0.26) | (0.10) |
| Net asset value at end of year | \$ 13.62 | \$ 10.47 | \$ 16.25 | \$ 16.36 | \$ 14.44 |
| Total return ^(B) | 30.21% | (34.06%) | 5.42% | 15.06% | 16.19% |
| Net assets at end of year (000s) | \$ 344,456 | \$ 254,688 | \$ 309,617 | \$ 338,286 | \$ 96,637 |
| Ratio of net expenses to average net assets | 1.18% | 1.16% | 1.18% | 1.21% | 1.27% |
| Ratio of net investment income to average net assets | 0.91% | 1.23% | 1.15% | 1.32% | 1.08% |
| Ratio of gross expenses to average net assets | 1.18% | 1.16% | 1.19% | 1.21% | 1.27% |
| Portfolio turnover rate ^(C) | 31% | 28% | 44% | 32% | 15% |
| Diamond Hill Large Cap Fund - Class C | | | | | |
| Net asset value at beginning of year | \$ 10.19 | \$ 15.84 | \$ 15.99 | \$ 14.15 | \$ 12.31 |
| Income (loss) from investment operations: | | | | | |
| Net investment income | 0.02 | 0.06 | 0.06 | 0.06 | 0.05 |
| Net realized and unrealized gains (losses) on investments | 2.97 | (5.55) | 0.70 | 1.95 | 1.83 |
| Total from investment operations | 2.99 | (5.49) | 0.76 | 2.01 | 1.88 |
| Less Distributions: | | | | | |
| Dividends from net investment income | - | (0.06) | (0.09) | (0.05) | - |
| Distributions from net realized gains | - | (0.10) | (0.82) | (0.12) | (0.04) |
| Total distributions | - | (0.16) | (0.91) | (0.17) | (0.04) |
| Net asset value at end of year | \$ 13.18 | \$ 10.19 | \$ 15.84 | \$ 15.99 | \$ 14.15 |
| Total return ^(B) | 29.34% | (34.64%) | 4.68% | 14.18% | 15.25% |
| Net assets at end of year (000s) | \$ 25,454 | \$ 20,656 | \$ 27,084 | \$ 22,438 | \$ 9,518 |
| Ratio of net expenses to average net assets | 1.93% | 1.91% | 1.93% | 1.96% | 2.02% |
| Ratio of net investment income to average net assets | 0.17% | 0.48% | 0.43% | 0.57% | 0.26% |
| Ratio of gross expenses to average net assets | 1.93% | 1.91% | 1.93% | 1.96% | 2.02% |
| Portfolio turnover rate ^(C) | 31% | 28% | 44% | 32% | 15% |
| Diamond Hill Large Cap Fund - Class I | | | | | |
| Net asset value at beginning of year | \$ 10.49 | \$ 16.29 | \$ 16.40 | \$ 14.47 | \$ 12.38 |
| Income (loss) from investment operations: | | | | | |
| Net investment income | 0.11 | 0.23 | 0.25 | 0.13 | 0.08 |
| Net realized and unrealized gains (losses) on investments | 3.11 | (5.74) | 0.73 | 2.12 | 2.13 |
| Total from investment operations | 3.22 | (5.51) | 0.98 | 2.25 | 2.21 |
| Less Distributions: | | | | | |
| Dividends from net investment income | (0.06) | (0.19) | (0.27) | (0.20) | (0.08) |
| Distributions from net realized gains | - | (0.10) | (0.82) | (0.12) | (0.04) |
| Total distributions | (0.06) | (0.29) | (1.09) | (0.32) | (0.12) |
| Net asset value at end of year | \$ 13.65 | \$ 10.49 | \$ 16.29 | \$ 16.40 | \$ 14.47 |
| Total return | 30.71% | (33.82%) | 5.88% | 15.49% | 17.84% ^(D) |
| Net assets at end of year (000s) | \$ 347,998 | \$ 141,416 | \$ 84,129 | \$ 59,182 | \$ 10,442 |
| Ratio of net expenses to average net assets | 0.79% | 0.78% | 0.78% | 0.78% | 0.80% ^(E) |
| Ratio of net investment income to average net assets | 1.28% | 1.67% | 1.60% | 1.82% | 1.60% ^(E) |
| Ratio of gross expenses to average net assets | 0.79% | 0.78% | 0.78% | 0.78% | 0.80% ^(E) |
| Portfolio turnover rate ^(C) | 31% | 28% | 44% | 32% | 15% |

^(A) Class I commenced operations on January 31, 2005.

^(B) Total returns shown exclude the effect of applicable sales charges.

^(C) Portfolio turnover rate is calculated on the basis of the Fund as a whole without distinguishing between classes of shares issued.

^(D) Not annualized.

^(E) Annualized.

See accompanying Notes to Financial Statements.

Diamond Hill Funds

Financial Highlights

For a share outstanding throughout each year.

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | Year Ended December 31, 2007 | Year Ended December 31, 2006 ^(A) |
|---|------------------------------------|------------------------------------|------------------------------------|---|
| Diamond Hill Select Fund - Class A | | | | |
| Net asset value at beginning of year | \$ 6.82 | \$ 10.61 | \$ 11.17 | \$ 10.00 |
| Income (loss) from investment operations: | | | | |
| Net investment income | 0.04 | 0.09 | 0.12 | 0.10 |
| Net realized and unrealized gains (losses) on investments | 2.16 | (3.55) | 0.53 | 1.27 |
| Total from investment operations | 2.20 | (3.46) | 0.65 | 1.37 |
| Less Distributions: | | | | |
| Dividends from net investment income | - | (0.08) | (0.09) | (0.08) |
| Distributions from net realized gains | - | (0.25) | (1.12) | (0.12) |
| Total distributions | - | (0.33) | (1.21) | (0.20) |
| Net asset value at end of year | \$ 9.02 | \$ 6.82 | \$ 10.61 | \$ 11.17 |
| Total return ^(B) | 32.26% | (32.68%) | 5.63% | 13.66% |
| Net assets at end of year (000s) | \$ 6,910 | \$ 4,030 | \$ 6,841 | \$ 10,036 |
| Ratio of net expenses to average net assets | 1.28% | 1.28% | 1.29% | 1.31% |
| Ratio of net investment income to average net assets | 0.60% | 1.10% | 0.90% | 1.04% |
| Ratio of gross expenses to average net assets | 1.28% | 1.28% | 1.29% | 1.32% |
| Portfolio turnover rate ^(C) | 57% | 85% | 55% | 80% |

| | | | | |
|---|----------|----------|----------|----------|
| Diamond Hill Select Fund - Class C | | | | |
| Net asset value at beginning of year | \$ 6.78 | \$ 10.56 | \$ 11.16 | \$ 10.00 |
| Income (loss) from investment operations: | | | | |
| Net investment income | 0.01 | 0.02 | 0.02 | 0.02 |
| Net realized and unrealized gains (losses) on investments | 2.15 | (3.55) | 0.54 | 1.30 |
| Total from investment operations | 2.16 | (3.53) | 0.56 | 1.32 |
| Less Distributions: | | | | |
| Dividends from net investment income | - | - | (0.04) | (0.04) |
| Distributions from net realized gains | - | (0.25) | (1.12) | (0.12) |
| Total distributions | - | (0.25) | (1.16) | (0.16) |
| Net asset value at end of year | \$ 8.94 | \$ 6.78 | \$ 10.56 | \$ 11.16 |
| Total return ^(B) | 31.86% | (33.48%) | 4.78% | 13.11% |
| Net assets at end of year (000s) | \$ 3,472 | \$ 3,366 | \$ 6,912 | \$ 5,661 |
| Ratio of net expenses to average net assets | 2.03% | 2.01% | 2.03% | 2.05% |
| Ratio of net investment income to average net assets | 0.07% | 0.28% | 0.23% | 0.32% |
| Ratio of gross expenses to average net assets | 2.03% | 2.02% | 2.04% | 2.06% |
| Portfolio turnover rate ^(C) | 57% | 85% | 55% | 80% |

| | | | | |
|---|-----------|----------|----------|----------|
| Diamond Hill Select Fund - Class I | | | | |
| Net asset value at beginning of year | \$ 6.75 | \$ 10.59 | \$ 11.16 | \$ 10.00 |
| Income (loss) from investment operations: | | | | |
| Net investment income | 0.05 | 0.11 | 0.13 | 0.09 |
| Net realized and unrealized gains (losses) on investments | 2.22 | (3.58) | 0.57 | 1.32 |
| Total from investment operations | 2.27 | (3.47) | 0.70 | 1.41 |
| Less Distributions: | | | | |
| Dividends from net investment income | - | (0.12) | (0.15) | (0.13) |
| Distributions from net realized gains | - | (0.25) | (1.12) | (0.12) |
| Total distributions | - | (0.37) | (1.27) | (0.25) |
| Net asset value at end of year | \$ 9.02 | \$ 6.75 | \$ 10.59 | \$ 11.16 |
| Total return | 33.63% | (32.85%) | 6.10% | 14.04% |
| Net assets at end of year (000s) | \$ 23,122 | \$ 7,489 | \$ 4,667 | \$ 3,220 |
| Ratio of net expenses to average net assets | 0.89% | 0.87% | 0.88% | 0.84% |
| Ratio of net investment income to average net assets | 1.29% | 1.58% | 1.37% | 1.47% |
| Ratio of gross expenses to average net assets | 0.89% | 0.87% | 0.89% | 0.86% |
| Portfolio turnover rate ^(C) | 57% | 85% | 55% | 80% |

^(A) Class A, Class C, and Class I commenced operations on December 31, 2005, and commenced public offering and investment operations on January 3, 2006.

^(B) Total returns shown exclude the effect of applicable sales charges.

^(C) Portfolio turnover rate is calculated on the basis of the Fund as a whole without distinguishing between classes of shares issued.

See accompanying Notes to Financial Statements.

Diamond Hill Funds

Financial Highlights

For a share outstanding throughout each year.

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | Year Ended December 31, 2007 | Year Ended December 31, 2006 | Year Ended December 31, 2005 ^(A) |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|---|
| Diamond Hill Long-Short Fund - Class A | | | | | |
| Net asset value at beginning of year | \$ 13.83 | \$ 18.40 | \$ 18.57 | \$ 16.46 | \$ 13.67 |
| Income (loss) from investment operations: | | | | | |
| Net investment income | 0.00 ^(B) | 0.16 | 0.44 | 0.26 | 0.10 |
| Net realized and unrealized gains (losses) on investments | 2.48 | (4.52) | 0.16 | 2.52 | 2.83 |
| Total from investment operations | 2.48 | (4.36) | 0.60 | 2.78 | 2.93 |
| Less Distributions: | | | | | |
| Dividends from net investment income | - | (0.15) | (0.42) | (0.25) | (0.10) |
| Distributions from net realized gains | - | (0.06) | (0.35) | (0.42) | (0.04) |
| Total distributions | - | (0.21) | (0.77) | (0.67) | (0.14) |
| Net asset value at end of year | \$ 16.31 | \$ 13.83 | \$ 18.40 | \$ 18.57 | \$ 16.46 |
| Total return ^(C) | 17.93% | (23.65%) | 3.14% | 16.89% | 21.46% |
| Net assets at end of year (000s) | \$ 965,382 | \$ 1,110,982 | \$ 965,259 | \$ 773,161 | \$ 180,035 |
| Ratio of expenses to average net assets | 1.85% | 1.62% | 1.69% | 1.77% | 1.82% |
| Ratio of net investment income (loss) to average net assets | 0.00% ^(B) | 0.95% | 2.46% | 2.15% | 1.12% |
| Ratio of expenses to average net assets, excluding dividends on securities sold short | 1.48% | 1.45% | 1.48% | 1.51% | 1.55% |
| Portfolio turnover rate ^(D) | 44% | 59% | 59% | 83% | 58% ^(E) |
| Diamond Hill Long-Short Fund - Class C | | | | | |
| Net asset value at beginning of year | \$ 13.28 | \$ 17.65 | \$ 17.88 | \$ 15.92 | \$ 13.26 |
| Income (loss) from investment operations: | | | | | |
| Net investment income (loss) | (0.12) | 0.04 | 0.27 | 0.16 | 0.03 |
| Net realized and unrealized gains (losses) on investments | 2.38 | (4.32) | 0.16 | 2.38 | 2.70 |
| Total from investment operations | 2.26 | (4.28) | 0.43 | 2.54 | 2.73 |
| Less Distributions: | | | | | |
| Dividends from net investment income | - | (0.03) | (0.31) | (0.16) | (0.03) |
| Distributions from net realized gains | - | (0.06) | (0.35) | (0.42) | (0.04) |
| Total distributions | - | (0.09) | (0.66) | (0.58) | (0.07) |
| Net asset value at end of year | \$ 15.54 | \$ 13.28 | \$ 17.65 | \$ 17.88 | \$ 15.92 |
| Total return ^(C) | 17.02% | (24.26%) | 2.41% | 15.98% | 20.58% |
| Net assets at end of year (000s) | \$ 256,445 | \$ 278,069 | \$ 303,392 | \$ 188,550 | \$ 70,891 |
| Ratio of expenses to average net assets | 2.60% | 2.37% | 2.44% | 2.52% | 2.57% |
| Ratio of net investment income (loss) to average net assets | (0.76%) | 0.22% | 1.72% | 1.40% | 0.37% |
| Ratio of expenses to average net assets, excluding dividends on securities sold short | 2.23% | 2.20% | 2.23% | 2.26% | 2.30% |
| Portfolio turnover rate ^(D) | 44% | 59% | 59% | 83% | 58% ^(E) |
| Diamond Hill Long-Short Fund - Class I | | | | | |
| Net asset value at beginning of year | \$ 13.87 | \$ 18.46 | \$ 18.63 | \$ 16.49 | \$ 13.80 |
| Income (loss) from investment operations: | | | | | |
| Net investment income | 0.05 | 0.19 | 0.48 | 0.28 | 0.14 |
| Net realized and unrealized gains (losses) on investments | 2.50 | (4.51) | 0.19 | 2.59 | 2.73 |
| Total from investment operations | 2.55 | (4.32) | 0.67 | 2.87 | 2.87 |
| Less Distributions: | | | | | |
| Dividends from net investment income | (0.00) ^(B) | (0.21) | (0.49) | (0.31) | (0.14) |
| Distributions from net realized gains | - | (0.06) | (0.35) | (0.42) | (0.04) |
| Total distributions | - | (0.27) | (0.84) | (0.73) | (0.18) |
| Net asset value at end of year | \$ 16.42 | \$ 13.87 | \$ 18.46 | \$ 18.63 | \$ 16.49 |
| Total return | 18.39% | (23.36%) | 3.59% | 17.37% | 20.81% ^(F) |
| Net assets at end of year (000s) | \$ 733,909 | \$ 657,662 | \$ 500,425 | \$ 290,734 | \$ 56,873 |
| Ratio of expenses to average net assets | 1.47% | 1.24% | 1.29% | 1.34% | 1.39% ^(G) |
| Ratio of net investment income to average net assets | 0.37% | 1.33% | 2.87% | 2.60% | 1.71% ^(G) |
| Ratio of expenses to average net assets, excluding dividends on securities sold short | 1.10% | 1.08% | 1.08% | 1.08% | 1.10% ^(G) |
| Portfolio turnover rate ^(D) | 44% | 59% | 59% | 83% | 58% ^(E) |

^(A) Class I commenced operations on January 31, 2005.

^(B) Amount rounds to less than \$ 0.005.

^(C) Total returns shown exclude the effect of applicable sales charges.

^(D) Portfolio turnover rate is calculated on the basis of the Fund as a whole without distinguishing between classes of shares issued.

^(E) The portfolio turnover rate for December 31, 2005 has been revised to include long-term short selling transactions.

^(F) Not annualized.

^(G) Annualized.

See accompanying Notes to Financial Statements.

Diamond Hill Funds

Financial Highlights

For a share outstanding throughout each year.

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | Year Ended December 31, 2007 ^(A) | Year Ended December 31, 2006 | Year Ended December 31, 2005 |
|---|------------------------------------|------------------------------------|---|------------------------------------|------------------------------------|
| Diamond Hill Financial Long-Short Fund - Class A | | | | | |
| Net asset value at beginning of year | \$ 8.48 | \$ 16.20 | \$ 20.90 | \$ 18.48 | \$ 19.10 |
| Income (loss) from investment operations: | | | | | |
| Net investment income | 0.16 ^(D) | 0.45 | 0.49 | 0.23 | 0.29 |
| Net realized and unrealized gains (losses) on investments | 1.94 | (7.74) | (4.04) | 2.79 | (0.24) |
| Total from investment operations | 2.10 | (7.29) | (3.55) | 3.02 | 0.05 |
| Less Distributions: | | | | | |
| Dividends from net investment income | (0.15) | (0.42) | (0.47) | (0.24) | (0.30) |
| Distributions from net realized gains | - | (0.01) | (0.68) | (0.36) | (0.37) |
| Total distributions | (0.15) | (0.43) | (1.15) | (0.60) | (0.67) |
| Net asset value at end of year | \$ 10.43 | \$ 8.48 | \$ 16.20 | \$ 20.90 | \$ 18.48 |
| Total return ^(B) | 24.73% | (44.98%) | (17.05%) | 16.35% | 0.25% |
| Net assets at end of year (000s) | \$ 8,053 | \$ 7,596 | \$ 27,597 | \$ 38,978 | \$ 17,366 |
| Ratio of net expenses to average net assets | 1.77% | 1.85% | 1.81% | 1.70% | 1.67% |
| Ratio of net investment income to average net assets | 1.92% | 2.37% | 2.17% | 1.80% | 1.41% |
| Ratio of gross expenses to average net assets | 1.77% | 1.85% | 1.82% | 1.70% | 1.67% |
| Ratio of net expenses to average net assets, excluding dividends on securities sold short | 1.58% | 1.56% | 1.59% | 1.62% | - |
| Portfolio turnover rate ^(C) | 85% | 74% | 55% | 45% | 28% |
| Diamond Hill Financial Long-Short Fund - Class C | | | | | |
| Net asset value at beginning of year | \$ 8.12 | \$ 15.60 | \$ 20.10 | \$ 17.84 | \$ 18.42 |
| Income (loss) from investment operations: | | | | | |
| Net investment income | 0.09 ^(D) | 0.21 | 0.34 | 0.13 | 0.15 |
| Net realized and unrealized gains (losses) on investments | 1.84 | (7.31) | (3.88) | 2.63 | (0.24) |
| Total from investment operations | 1.93 | (7.10) | (3.54) | 2.76 | (0.09) |
| Less Distributions: | | | | | |
| Dividends from net investment income | (0.06) | (0.37) | (0.28) | (0.14) | (0.12) |
| Distributions from net realized gains | - | (0.01) | (0.68) | (0.36) | (0.37) |
| Total distributions | (0.06) | (0.38) | (0.96) | (0.50) | (0.49) |
| Net asset value at end of year | \$ 9.99 | \$ 8.12 | \$ 15.60 | \$ 20.10 | \$ 17.84 |
| Total return ^(B) | 23.81% | (45.49%) | (17.68%) | 15.47% | (0.49%) |
| Net assets at end of year (000s) | \$ 1,295 | \$ 1,866 | \$ 3,287 | \$ 4,620 | \$ 2,544 |
| Ratio of net expenses to average net assets | 2.52% | 2.58% | 2.56% | 2.45% | 2.42% |
| Ratio of net investment income to average net assets | 1.17% | 1.76% | 1.42% | 1.03% | 0.67% |
| Ratio of gross expenses to average net assets | 2.52% | 2.58% | 2.57% | 2.45% | 2.42% |
| Ratio of net expenses to average net assets, excluding dividends on securities sold short | 2.33% | 2.30% | 2.34% | 2.37% | - |
| Portfolio turnover rate ^(C) | 85% | 74% | 55% | 45% | 28% |
| Diamond Hill Financial Long-Short Fund - Class I | | | | | |
| Net asset value at beginning of year | \$ 8.43 | \$ 16.18 | 20.90 | | |
| Income (loss) from investment operations: | | | | | |
| Net investment income | 0.21 ^(D) | 0.63 | 0.37 | | |
| Net realized and unrealized gains (losses) on investments | 1.92 | (7.89) | (3.83) | | |
| Total from investment operations | 2.13 | (7.26) | (3.46) | | |
| Less Distributions: | | | | | |
| Dividends from net investment income | (0.19) | (0.48) | (0.58) | | |
| Distributions from net realized gains | - | (0.01) | (0.68) | | |
| Total distributions | (0.19) | (0.49) | (1.26) | | |
| Net asset value at end of year | \$ 10.37 | \$ 8.43 | 16.18 | | |
| Total return | 25.31% | (44.79%) | (16.61%) | | |
| Net assets at end of year (000s) | \$ 671 | \$ 709 | 2,464 | | |
| Ratio of net expenses to average net assets | 1.38% | 1.47% | 1.41% | | |
| Ratio of net investment income to average net assets | 2.45% | 2.80% | 2.96% | | |
| Ratio of gross expenses to average net assets | 1.38% | 1.47% | 1.42% | | |
| Ratio of net expenses to average net assets, excluding dividends on securities sold short | 1.19% | 1.18% | 1.18% | | |
| Portfolio turnover rate ^(C) | 85% | 74% | 55% | | |

^(A) Class I commenced operations on December 31, 2006, and commenced public offering and investment operations on January 3, 2007.

^(B) Total returns shown exclude the effect of applicable sales charges.

^(C) Portfolio turnover rate is calculated on the basis of the Fund as a whole without distinguishing between classes of shares issued.

^(D) Net investment income per share has been calculated using the average daily shares outstanding during the period.

See accompanying Notes to Financial Statements.

Diamond Hill Funds

Financial Highlights

For a share outstanding throughout each period.

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | Year Ended December 31, 2007 | Year Ended December 31, 2006 | Year Ended December 31, 2005 ^(A) |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|---|
| Diamond Hill Strategic Income Fund - Class A | | | | | |
| Net asset value at beginning of year | \$ 8.28 | \$ 10.41 | \$ 11.71 | \$ 11.25 | \$ 11.63 |
| Income (loss) from investment operations: | | | | | |
| Net investment income | 0.69 | 0.71 | 0.68 | 0.70 | 0.66 |
| Net realized and unrealized gains (losses) on investments | 1.86 | (2.19) | (1.20) | 0.42 | (0.38) |
| Total from investment operations | 2.55 | (1.48) | (0.52) | 1.12 | 0.28 |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.68) | (0.64) | (0.67) | (0.66) | (0.66) |
| Distributions from net realized gains | - | - | (0.11) | - | - |
| Return of Capital | - | (0.01) | - | - | - |
| Total distributions | (0.68) | (0.65) | (0.78) | (0.66) | (0.66) |
| Net asset value at end of year | \$ 10.15 | \$ 8.28 | \$ 10.41 | \$ 11.71 | \$ 11.25 |
| Total return ^(B) | 32.13% | (14.79%) | (4.78%) | 10.26% | 2.41% |
| Net assets at end of year (000s) | \$ 41,048 | \$ 31,268 | \$ 54,435 | \$ 49,372 | \$ 31,456 |
| Ratio of net expenses to average net assets | 1.08% | 1.06% | 1.08% | 1.12% | 1.17% |
| Ratio of net investment income to average net assets | 7.64% | 6.60% | 6.15% | 6.38% | 5.74% |
| Ratio of gross expenses to average net assets | 1.08% | 1.06% | 1.09% | 1.12% | 1.17% |
| Portfolio turnover rate ^(C) | 83% | 95% | 142% | 43% | 66% |

Diamond Hill Strategic Income Fund - Class C

| | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|
| Net asset value at beginning of year | \$ 8.27 | \$ 10.41 | \$ 11.70 | \$ 11.24 | \$ 11.63 |
| Income (loss) from investment operations: | | | | | |
| Net investment income | 0.58 | 0.65 | 0.62 | 0.62 | 0.58 |
| Net realized and unrealized gains (losses) on investments | 1.91 | (2.21) | (1.22) | 0.41 | (0.40) |
| Total from investment operations | 2.49 | (1.56) | (0.60) | 1.03 | 0.18 |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.61) | (0.57) | (0.58) | (0.57) | (0.57) |
| Distributions from net realized gains | - | - | (0.11) | - | - |
| Return of Capital | - | (0.01) | - | - | - |
| Total distributions | (0.61) | (0.58) | (0.69) | (0.57) | (0.57) |
| Net asset value at end of year | \$ 10.15 | \$ 8.27 | \$ 10.41 | \$ 11.70 | \$ 11.24 |
| Total return ^(B) | 31.34% | (15.51%) | (5.43%) | 9.43% | 1.57% |
| Net assets at end of year (000s) | \$ 22,120 | \$ 14,730 | \$ 24,638 | \$ 26,908 | \$ 20,257 |
| Ratio of net expenses to average net assets | 1.83% | 1.80% | 1.83% | 1.87% | 1.91% |
| Ratio of net investment income to average net assets | 6.88% | 5.87% | 5.35% | 5.63% | 5.06% |
| Ratio of gross expenses to average net assets | 1.83% | 1.81% | 1.84% | 1.87% | 1.91% |
| Portfolio turnover rate ^(C) | 83% | 95% | 142% | 43% | 66% |

Diamond Hill Strategic Income Fund - Class I

| | | | | | |
|---|-----------|-----------|-----------|-----------|----------------------|
| Net asset value at beginning of year | \$ 8.26 | \$ 10.40 | \$ 11.69 | \$ 11.23 | \$ 11.65 |
| Income (loss) from investment operations: | | | | | |
| Net investment income | 0.73 | 0.70 | 0.71 | 0.73 | 0.65 |
| Net realized and unrealized gains (losses) on investments | 1.85 | (2.15) | (1.17) | 0.44 | (0.42) |
| Total from investment operations | 2.58 | (1.45) | (0.46) | 1.17 | 0.23 |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.71) | (0.68) | (0.72) | (0.71) | (0.65) |
| Distributions from net realized gains | - | - | (0.11) | - | - |
| Return of Capital | - | (0.01) | - | - | - |
| Total distributions | (0.71) | (0.69) | (0.83) | (0.71) | (0.65) |
| Net asset value at end of year | \$ 10.13 | \$ 8.26 | \$ 10.40 | \$ 11.69 | \$ 11.23 |
| Total return | 32.69% | (14.55%) | (4.31%) | 10.74% | 2.03% ^(D) |
| Net assets at end of year (000s) | \$ 64,407 | \$ 50,185 | \$ 70,205 | \$ 54,302 | \$ 25,299 |
| Ratio of net expenses to average net assets | 0.69% | 0.67% | 0.68% | 0.68% | 0.70% ^(E) |
| Ratio of net investment income to average net assets | 8.05% | 7.05% | 6.62% | 6.89% | 6.57% ^(E) |
| Ratio of gross expenses to average net assets | 0.69% | 0.68% | 0.68% | 0.68% | 0.70% ^(E) |
| Portfolio turnover rate ^(C) | 83% | 95% | 142% | 43% | 66% |

^(A) Class I commenced operations on January 31, 2005.

^(B) Total returns shown exclude the effect of applicable sales charges.

^(C) Portfolio turnover rate is calculated on the basis of the Fund as a whole without distinguishing between classes of shares issued.

^(D) Not annualized.

^(E) Annualized.

See accompanying Notes to Financial Statements.

Diamond Hill Funds
Notes to Financial Statements
December 31, 2009

Organization

The Diamond Hill Small Cap Fund (“Small Cap Fund”), Diamond Hill Small-Mid Cap Fund (“Small-Mid Cap Fund”), Diamond Hill Large Cap Fund (“Large Cap Fund”), Diamond Hill Select Fund (“Select Fund”), Diamond Hill Long-Short Fund (“Long-Short Fund”), Diamond Hill Financial Long-Short Fund (“Financial Long-Short Fund”) and Diamond Hill Strategic Income Fund (“Strategic Income Fund”), are each a series of the Diamond Hill Funds (the “Trust”) (each a “Fund” and collectively the “Funds”). The Trust is an Ohio business trust, which is registered under the Investment Company Act of 1940, as amended, (the “1940 Act”) as an open-end, management investment company. Each Fund is a diversified series of the Trust.

The Funds offer three classes of shares: Class A, Class C and Class I. Each class of shares for each Fund has identical rights and privileges except with respect to distribution (12b-1) and service fees, voting rights on matters affecting a single class of shares, exchange privileges of each class of shares and sales charges. Class A has a maximum sales charge on purchases of 5.00% as a percentage of the original purchase price except for Strategic Income Fund which is 3.50%. Class C has a contingent deferred sales charge of 1.00% for shares redeemed within a year of the purchase date.

Significant Accounting Policies

The following is a summary of the Funds’ significant accounting policies:

Estimates — The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Security valuation — The Fund records its investments at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation techniques used to determine fair value are further described below.

Listed securities for which market quotations are readily available are valued at the closing prices as determined by the primary exchange where the securities are traded. Unlisted securities or listed securities for which the latest sales prices are not readily available are valued at the closing bid price in the principal market where such securities are normally traded. Debt securities are valued on the basis of valuations provided by dealers or by an independent pricing service that determines valuations based upon market transactions for normal, institutional-size trading units of similar securities. Short-term debt investments of sufficient credit quality maturing in less than 61 days are valued at amortized cost, which approximates fair value. Investments in other investment companies are valued at their reported net asset value. Securities for which market quotations are not readily available (e.g., an approved pricing service does not provide a price, certain stale prices, or an event occurs that materially affects the furnished price) are valued by the Fair Value Committee. In these cases, the Fair Value Committee established and appointed by the Trustees determines in good faith, subject to Trust procedures, the fair value of portfolio securities held by a Fund (“good faith fair valuation”). When a good faith fair valuation of a security is required, consideration is generally given to a number of factors, including, but not limited to the following: dealer quotes, published analyses by dealers or analysts of the situation at issue, transactions implicitly valuing the security (such as a merger, tender offer, etc.), the value of other securities or contracts which derive their value from the security at issue, and the implications (whether negative or positive) of the circumstances which have caused trading in the security to halt. Approximately 0.4% of the Strategic Income Fund’s net assets are being valued using estimates provided by the Fair Value Committee. The Fair Value Committee relied heavily upon analysis of the fund’s portfolio manager in the absence of readily ascertainable market values. These values may differ from the values that would have been used had a ready market for these securities existed, and the differences could be material.

The valuation techniques described maximize the use of observable inputs and minimize the use of unobservable inputs in determining fair value. These inputs are summarized in the three broad levels listed below:

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Funds’ own assumptions in determining the fair value of investments)

Diamond Hill Funds
Notes to Financial Statements (Continued)
December 31, 2009

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. For example, short-term debt securities of sufficient credit quality maturing in less than 61 days of the filing are valued using amortized cost, in accordance with rules under the Investment Company Act of 1940. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities are reflected as Level 2.

The following is a summary of the inputs used to value the Funds' investments as of December 31, 2009:

| | Level 1 – Quoted Prices | Level 2 – Other Significant Observable Inputs |
|--|----------------------------|---|
| Investments in Securities: | | |
| (Assets) | | |
| Small Cap Fund | | |
| Common Stocks* | \$ 459,800,010 | \$ - |
| Registered Investment Companies | 229,353,700 | - |
| Total | 689,153,710 | - |
| Small-Mid Cap Fund | | |
| Common Stocks* | 32,217,717 | - |
| Registered Investment Companies | 14,736,950 | - |
| Total | 46,954,667 | - |
| Large Cap Fund | | |
| Common Stocks* | 672,909,372 | - |
| Registered Investment Companies | 78,379,229 | - |
| Total | 751,288,601 | - |
| Select Fund | | |
| Common Stocks* | 30,063,265 | - |
| Registered Investment Companies | 7,683,684 | - |
| Total | 37,746,949 | - |
| Long-Short Fund | | |
| Common Stocks* | 1,809,555,518 | - |
| Registered Investment Companies | 286,052,427 | - |
| Total | 2,095,607,945 | - |
| Financial Long-Short Fund | | |
| Common Stocks* | 7,840,902 | - |
| Preferred Stocks | - | 1,258,454 |
| Corporate Bonds | - | 329,911 |
| Registered Investment Companies | 2,129,205 | - |
| Total | 9,970,107 | 1,588,365 |
| Strategic Income Fund | | |
| Collateralized Debt Obligations | - | 552,828 |
| Common Stocks* | 241,920 | - |
| Preferred Stocks | - | 8,246,855 |
| Corporate Bonds | - | 109,918,580 |
| Registered Investment Companies | 20,163,514 | - |
| Total | 20,405,434 | 118,718,263 |
| Investments in Securities Sold Short: (Liabilities) | | |
| Long-Short Fund | | |
| Common Stocks* | \$(649,576,434) | \$ - |
| Exchange Traded Funds | (46,160,918) | - |
| Total | (695,737,352) | - |
| Financial Long-Short Fund | | |
| Common Stocks* | (839,614) | - |

The Funds had no Level 3 securities at December 31, 2009.

* See Schedule of Investments and Schedule of Securities Sold Short for industry classification.

Diamond Hill Funds

Notes to Financial Statements (Continued)
December 31, 2009

Short sales — The Long-Short Fund, Financial Long-Short Fund and Strategic Income Fund may sell a security they do not own in anticipation of a decline in the value of that security. When the Funds sell a security short, they must borrow the security sold short and deliver it to the broker-dealer through which they made the short sale. A gain, limited to the price at which the Funds sold the security short, or a loss, unlimited in size, will be recognized upon closing a short sale. Cash received from short sales is maintained by brokers and is used to meet margin requirements for short calls. It is included as “Deposits with brokers for securities sold short” on the Statements of Assets & Liabilities.

Securities Lending — Under the terms of the securities lending agreement with JPMorgan Chase Bank, N.A. (“JPMorgan”), JPMorgan is authorized to loan securities on behalf of the Funds to approved borrowers. In exchange, the Funds receive cash collateral in the amount of at least 100% of the value of the securities loaned. The cash collateral is invested in short term instruments as noted in the Schedules of Investments. Although risk is mitigated by the collateral, the Funds could experience a delay in recovering their securities and possible loss of income or value if the borrower fails to return them. The agreement indemnifies the Funds from losses incurred in the event of a borrower’s material default of the terms and conditions of the borrower agreement. The agreement provides that after predetermined rebates to brokers, net securities lending income shall first be solely paid as credits and offset against costs and other charges incurred by each Fund with JPMorgan. Any remaining securities lending revenue is then paid to the Funds as securities lending income.

As of December 31, 2009, the value of securities loaned and the collateral held were as follows:

| | Fair Value of Securities Loaned | Fair Value of Collateral Received |
|---------------------------|------------------------------------|--------------------------------------|
| Small Cap Fund | \$ 115,591,081 | \$ 120,753,585 |
| Small-Mid Cap Fund | \$ 7,348,856 | \$ 7,671,915 |
| Large Cap Fund | \$ 13,626,550 | \$ 14,009,647 |
| Select Fund | \$ 4,112,893 | \$ 4,279,958 |
| Long-Short Fund | \$ 140,622,354 | \$ 145,995,572 |
| Financial Long-Short Fund | \$ 1,786,439 | \$ 1,860,669 |
| Strategic Income Fund | \$ 12,929,007 | \$ 13,291,643 |

Security transactions — Changes in holdings of portfolio securities shall be reflected no later than in the first calculation on the first business day following trade date. However, for financial reporting purposes, portfolio security transactions are reported on trade date. The specific identification method is used for determining realized gains or losses for financial statements and income tax purposes. Dividend income is recognized on the ex-dividend date and interest income is recognized on an accrual basis. Discounts and premiums on securities purchased are amortized using the daily effective yield method. The Funds record distributions received from investments in Real Estate Investment Trusts (REITS) in excess of income from underlying investments as a reduction of cost of investments and/or realized gain. Such amounts are based on estimates if actual amounts are not available and actual amounts of income, realized gain and return of capital may differ from the estimated amounts. The Funds adjust the estimated amounts of the components of distributions (and consequently net investment income) as an increase to unrealized appreciation (depreciation) and realized gain (loss) on investments as necessary once the issuers provide information about the actual composition of the distributions.

Share valuation — The net asset value per share of each class of shares of each Fund is calculated daily by dividing the total value of a Fund’s assets attributable to that class, less liabilities attributable to that class, by the number of shares of that class outstanding.

Federal income taxes — Each Fund’s policy is to continue to comply with the requirements of the Internal Revenue Code that are applicable to regulated investment companies and to distribute substantially all of its taxable net investment income and any net realized capital gains to its shareholders. The Funds have analyzed their tax positions taken on Federal income tax returns for all open tax years (tax years ended December 31, 2006 through 2009) and have concluded that no provision for income tax is required in their financial statements.

Distributions to shareholders — Dividends from net investment income are declared and paid monthly for the Strategic Income Fund. Dividends from net investment income are declared and paid on an annual basis for the Small Cap Fund,

Diamond Hill Funds

Notes to Financial Statements (Continued)

December 31, 2009

Small-Mid Cap Fund, Large Cap Fund, Select Fund, Long-Short Fund, and Financial Long-Short Fund. Dividends are declared separately for each class. No class has preferential dividend rights; differences in per share rates are due to differences in separate class expenses. Net realized capital gains, if any, are distributed at least annually. Distributions from net investment income and from net capital gains are determined in accordance with U.S. income tax regulations, which may differ from GAAP in the United States. These differences are primarily due to differing treatments for paydown gains and losses on mortgage-backed securities, expiring capital loss carryforwards, and deferrals of certain losses. Permanent book and tax basis differences are reclassified among the components of net assets. Certain Funds may utilize earnings and profits distributed to shareholders on redemption of shares as part of the dividends paid deduction for income tax purposes.

Allocations — Investment income earned, realized capital gains and losses, and unrealized appreciation and depreciation for the Funds are allocated daily to each class of shares based upon its proportionate share of total net assets of the Fund. Class specific expenses are charged directly to the class incurring the expense. Common expenses, which are not attributable to a specific class, are allocated daily to each class of shares based upon its proportionate share of total net assets of the Fund. Expenses not directly billed to a Fund are allocated proportionally among all Funds daily in relation to net assets of each Fund or another reasonable measure.

Investment Transactions

For the year ended December 31, 2009, the purchases and sales (including maturities) of investment securities (excluding short-term securities and U.S. government obligations) were as follows:

| | Purchases | Sales |
|---------------------------|----------------|------------------|
| Small Cap Fund | \$ 207,132,191 | \$ 166,775,865 |
| Small-Mid Cap Fund | \$ 18,563,874 | \$ 20,048,696 |
| Large Cap Fund | \$ 288,332,834 | \$ 145,846,418 |
| Select Fund | \$ 20,687,012 | \$ 9,145,005 |
| Long-Short Fund | \$ 961,034,026 | \$ 1,540,952,787 |
| Financial Long-Short Fund | \$ 7,593,704 | \$ 9,319,648 |
| Strategic Income Fund | \$ 82,794,527 | \$ 78,902,125 |

The Funds pay commissions on the purchase and sale of investment securities. The commissions paid are included as part of the cost of purchases or net proceeds on the sale of investment securities and are not included in the presentation of Fund expenses on the Statements of Operations. The Funds paid the following commissions during the year ended December 31, 2009:

| | Total Commissions | Commissions as a % of Average Net Assets |
|---------------------------|-------------------|---|
| Small Cap Fund | \$ 424,100 | 0.10% |
| Small-Mid Cap Fund | \$ 39,720 | 0.14% |
| Large Cap Fund | \$ 386,310 | 0.08% |
| Select Fund | \$ 17,847 | 0.10% |
| Long-Short Fund | \$ 2,378,591 | 0.13% |
| Financial Long-Short Fund | \$ 20,671 | 0.23% |
| Strategic Income Fund | \$ 6,696 | 0.01% |

Investment Advisory Fees and Other Transactions with Affiliates

The Small Cap Fund, Small-Mid Cap Fund, Large Cap Fund, Select Fund, Long-Short Fund, Financial Long-Short Fund, and Strategic Income Fund each receive investment management and advisory services from Diamond Hill Capital Management, Inc. ("DHCM") under management agreements that provide for fees to be paid at an annual rate of 0.80%, 0.75%, 0.60%, 0.70%, 0.90%, 1.00%, and 0.50% of the Funds' average daily net assets, respectively. The advisory agreements

Diamond Hill Funds

Notes to Financial Statements (Continued)
December 31, 2009

are subject to annual approval by the Board of Trustees. In addition, each Fund has entered into an administrative services agreement whereby DHCM (“Administrator”) is paid a fee at an annual rate of 0.34% for Class A and Class C Shares and 0.20% for Class I shares of each class’ average daily net assets. Prior to April 30, 2009, the fees paid by Class A, Class C, and Class I shares were paid at an annual rate of 0.30%, 0.30% and 0.18% of each classes’ average daily net assets, respectively. These administrative fees are used to pay most of the Funds’ operating expenses except advisory, distribution, custody, brokerage, taxes, interest, dividend expense on securities sold short, and extraordinary expenses.

Pursuant to rule 12b-1 of the 1940 Act, each Fund has adopted a distribution plan (together, the “Plans”). Under the Plans, Class A shares pay a distribution fee at an annual rate of 0.25% of Class A average daily net assets. Class C shares pay a distribution and shareholder-servicing fee at an annual rate of 0.75% and 0.25%, respectively, of Class C average daily net assets. Class I shares are not subject to any distribution or shareholder-servicing fees. The Trust entered into a Distribution Agreement on behalf of the Funds with BHIL Distributors, Inc. (“Distributor”), an affiliate of DHCM. Pursuant to the Distribution Agreement, the Distributor acts as principal underwriter of each Fund’s shares. Prior to April 30, 2009, IFS Fund Distributors, Inc. acted as Distributor.

For the year ended December 31, 2009, the Distributors received the following amounts in sales commissions from the sales of Class A shares of the Funds as follows:

| | IFS Fund Distributors, Inc. January 1, 2009 – April 29, 2009 | BHIL Distributors, Inc. April 30, 2009 – December 31, 2009 |
|---------------------------|--|--|
| Small Cap Fund | \$ 1,923 | \$ 7,628 |
| Small-Mid Cap Fund | \$ 65 | \$ 94 |
| Large Cap Fund | \$ 1,855 | \$ 7,231 |
| Select Fund | \$ 5 | \$ 2,416 |
| Long-Short Fund | \$ 7,492 | \$ 25,787 |
| Financial Long-Short Fund | \$ 122 | \$ 426 |
| Strategic Income Fund | \$ 1,497 | \$ 1,860 |

DHCM, as the financing agent for Class C shares, received contingent deferred sales charges relating to the redemptions of Class C shares of the Funds for the year ended December 31, 2009 as follows:

| | |
|---------------------------|-----------|
| Small Cap Fund | \$ 4,127 |
| Small-Mid Cap Fund | \$ 1,593 |
| Large Cap Fund | \$ 6,753 |
| Select Fund | \$ 242 |
| Long-Short Fund | \$ 84,346 |
| Financial Long-Short Fund | \$ 1,603 |
| Strategic Income Fund | \$ 2,064 |

Certain officers of the Trust are affiliated with DHCM or the Distributor. Such officers receive no compensation from the Funds for serving in their respective roles.

Commitments and Contingencies

The Funds indemnify the Trust’s officers and Trustees for certain liabilities that might arise from their performance of their duties to the Funds. Additionally, in the normal course of business, the Funds enter into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Funds’ maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Funds that have not yet occurred. However, based on experience, the Funds expect the risk of loss to be remote.

Diamond Hill Funds
Notes to Financial Statements (Continued)
December 31, 2009

Federal Tax Information

The amount and character of income and capital gain distributions paid by the Funds are determined in accordance with Federal income tax regulations which may differ from GAAP. The tax character of distributions paid differs from the character of distributions shown on the Statements of Changes in Net Assets due primarily to short-term capital gains being treated as ordinary income for tax purposes.

The tax character of distributions paid during 2009 and 2008 was as follows:

| | Small Cap Fund | | Small-Mid Cap Fund | | Large Cap Fund | | Select Fund | |
|--------------------------|----------------|--------------|--------------------|------------|----------------|--------------|-------------|------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Distributions paid from: | | | | | | | | |
| Ordinary income | \$ 54,353 | \$ 3,188,253 | \$ 47,498 | \$ 362,049 | \$ 1,909,846 | \$ 6,027,559 | \$ - | \$ 170,214 |
| Long-term capital gains | - | - | - | - | - | 3,779,308 | - | 568,314 |
| Total distributions | \$ 54,353 | \$ 3,188,253 | \$ 47,498 | \$ 362,049 | \$ 1,909,846 | \$ 9,806,867 | \$ - | \$ 738,528 |

| | Long-Short Fund | | Financial Long-Short Fund | | Strategic Income Fund | |
|--------------------------|-----------------|---------------|---------------------------|------------|-----------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Distributions paid from: | | | | | | |
| Ordinary income | \$ 19,506 | \$ 22,430,110 | \$ 149,149 | \$ 486,458 | \$ 7,974,351 | \$ 8,683,372 |
| Long-term capital gains | - | 9,366,895 | - | - | - | - |
| Return of capital | - | - | - | - | - | 166,756 |
| Total distributions | \$ 19,506 | \$ 31,797,005 | \$ 149,149 | \$ 486,458 | \$ 7,974,351 | \$ 8,850,128 |

The following information is computed on a tax basis for each item as of December 31, 2009:

| | Small Cap Fund | Small-Mid Cap Fund | Large Cap Fund | Select Fund |
|--------------------------------|----------------|--------------------|----------------|---------------|
| Tax cost of investments | \$ 639,557,192 | \$ 43,391,543 | \$ 676,803,070 | \$ 34,947,688 |
| Gross unrealized appreciation | 83,938,948 | 5,569,274 | 95,373,812 | 3,725,906 |
| Gross unrealized depreciation | (34,342,430) | (2,006,150) | (20,888,281) | (926,645) |
| Net unrealized appreciation | 49,596,518 | 3,563,124 | 74,485,531 | 2,799,261 |
| Undistributed ordinary income | - | 47,033 | 3,371,996 | 160,821 |
| Capital loss carryforwards | (35,690,799) | (2,458,151) | (84,713,390) | (2,143,874) |
| Post-October losses | - | - | (696,139) | - |
| Other temporary differences | - | - | - | (151,245) |
| Accumulated earnings (deficit) | \$ 13,905,719 | \$ 1,152,006 | \$ (7,552,002) | \$ 664,963 |

| | Long-Short Fund | Financial Long-Short Fund | Strategic Income Fund |
|-----------------------------------|------------------|---------------------------|-----------------------|
| Tax cost of portfolio investments | \$ 1,852,227,357 | \$ 10,404,693 | \$ 138,727,860 |
| Gross unrealized appreciation | 327,466,198 | 1,747,656 | 12,400,209 |
| Gross unrealized depreciation | (201,942,536) | (550,247) | (12,004,372) |
| Net unrealized appreciation | 125,523,662 | 1,197,409 | 395,837 |
| Undistributed ordinary income | 334,785 | - | 1,871,181 |
| Capital loss carryforwards | (519,005,486) | (15,430,435) | (25,497,744) |
| Post-October losses | (661,039) | - | - |
| Accumulated deficit | \$ (393,808,078) | \$ (14,233,026) | \$ (23,230,726) |

The difference between book basis and tax basis net unrealized appreciation (depreciation) is attributable primarily to the tax deferral of losses on wash sales, investments in Real Estate Investment Trusts and contributed securities.

Diamond Hill Funds
Notes to Financial Statements (Continued)
December 31, 2009

As of December 31, 2009, the Funds had net capital loss carryforwards expiring as follows:

| | Amount | Expires December 31, |
|---------------------------|-----------------------|---------------------------------|
| Small Cap Fund | \$ 5,865,271 | 2016 |
| | 29,825,528 | 2017 |
| | <u>\$ 35,690,799</u> | |
| Small-Mid Cap Fund | \$ 995,466 | 2016 |
| | 1,462,685 | 2017 |
| | <u>\$ 2,458,151</u> | |
| Large Cap Fund | \$ 43,434,203 | 2016 |
| | 41,279,187 | 2017 |
| | <u>\$ 84,713,390</u> | |
| Select Fund | \$ 495,737 | 2016 |
| | 1,648,137 | 2017 |
| | <u>\$ 2,143,874</u> | |
| Long-Short Fund | \$ 101,454,175 | 2016 |
| | 417,551,311 | 2017 |
| | <u>\$ 519,005,486</u> | |
| Financial Long-Short Fund | \$ 8,896,517 | 2016 |
| | 6,533,918 | 2017 |
| | <u>\$ 15,430,435</u> | |
| Strategic Income Fund | \$ 18,618,627 | 2016 |
| | 6,879,117 | 2017 |
| | <u>\$ 25,497,744</u> | |

The Funds also elected to defer until their subsequent tax year capital losses incurred after October 31, 2009. These capital loss carryforwards and "Post-October" losses may be utilized in future years to offset net realized capital gains, if any, prior to distributing such gains to shareholders.

Reclassification of capital accounts - Reclassifications result primarily from the difference in the tax treatment of net investment losses, distributions in excess of net investment income, investments in Real Estate Investment Trusts and contributed securities. The following reclassifications have no impact on the net assets or net asset value per share of the Funds and are designed to present the Funds' capital accounts on a tax basis:

| | Paid-In Capital | Undistributed Net Investment Income (Loss) | Accumulated Net Realized Gains (Losses) |
|---------------------------|----------------------------|---|--|
| Small Cap Fund | \$ (1,107,072) | \$ 610,614 | \$ 496,458 |
| Small-Mid Cap Fund | (42,251) | (4,177) | 46,428 |
| Select Fund | (21,773) | - | 21,773 |
| Financial Long-Short Fund | (47,070) | (13,909) | 60,979 |
| Strategic Income Fund | (211,031) | (240,806) | 451,837 |

The Funds have analyzed their tax positions taken on Federal income tax returns for all open tax years (tax years ended December 31, 2006 through 2009) and have concluded that no provision for income tax is required in their financial statements.

Subsequent Events

The Funds evaluated subsequent events from December 31, 2009, the date of these financial statements, through February 26, 2010, the date these financial statements were issued and available. There were no subsequent events to report that would have a material impact on the Funds' financial statements.

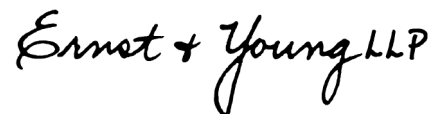
Report of Independent Registered Public Accounting Firm

The Board of Trustees and Shareholders
of the Diamond Hill Funds:

We have audited the accompanying statements of assets and liabilities of the Diamond Hill Funds (comprised of the Diamond Hill Small Cap Fund, Diamond Hill Small-Mid Cap Fund, Diamond Hill Large Cap Fund, Diamond Hill Select Fund, Diamond Hill Long-Short Fund, Diamond Hill Financial Long-Short Fund, and Diamond Hill Strategic Income Fund) (collectively, the "Funds"), including the schedules of investments, as of December 31, 2009, and the related statements of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Funds' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2009, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Diamond Hill Funds at December 31, 2009, the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Cincinnati, Ohio
February 26, 2010

Diamond Hill Funds

Other Items
December 31, 2009
(Unaudited)

Proxy Voting

The investment adviser is responsible for exercising the voting rights associated with the securities purchased and held by the Funds. A description of the policies and procedures that the Adviser uses in fulfilling this responsibility and information regarding how those proxies were voted during the twelve month period ended June 30 are available without charge upon request by calling toll free 1-888-226-5595 or on the Securities and Exchange Commission's website at <http://www.sec.gov>.

Portfolio Disclosure

The Trust files a complete listing of portfolio holdings as of the end of the first and third quarters of each fiscal year on Form N-Q and each second and fourth quarters of each fiscal year on Form N-CSR. The complete listing (i) is available on the Commission's website; (ii) may be reviewed and copied at the Commission's Public Reference Room in Washington, DC; and (iii) will be made available to shareholders upon request by calling 1-888-226-5595. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. Monthly portfolio holdings are also available on www.diamond-hill.com.

Dividends Received Deduction

For corporate shareholders, the following ordinary dividends paid during the year ended December 31, 2009 qualify for the corporate dividends received deduction:

| | |
|---------------------------|------|
| Small-Mid Cap Fund | 100% |
| Large Cap Fund | 100% |
| Long-Short Fund | 100% |
| Financial Long-Short Fund | 100% |
| Strategic Income Fund | 12% |

Qualified Dividend Income

The Funds designated the maximum amount allowable of their net taxable income as qualified dividend income as provided in the Jobs and Growth Tax Relief Reconciliation Act of 2003. This amount was reflected on form 1099-div for the calendar year 2009.

Diamond Hill Funds
Schedule of Shareholder Expenses
Hypothetical Example of a \$1,000 Investment at Beginning of Period
(Unaudited)

All mutual funds have operating expenses. These expenses include costs for portfolio management, administrative services, and distribution fees. Operating expenses, which are deducted from a fund's gross income, directly reduce the investment return of the fund. A fund's expenses are expressed as a percentage of its net assets. This figure is known as the expense ratio.

We believe it is important for you to understand the impact of costs on your investment. The following example illustrates the operating costs that you would incur over the latest six-month period covered by this report if you invested \$1,000 in the Funds, using the Funds' actual return and operating expenses for the six months ended December 31, 2009. The examples use actual net operating expenses applicable to that class. The calculation does not reflect transaction costs, including sales charges (loads), as applicable. If transaction costs were included, your total costs would have been higher. The examples contain two sets of numbers, one using the actual return earned by each class of each Fund during the six months ended December 31, 2009, and one using a hypothetical 5% annual return (2.5% for the reporting period).

| | Account value at the beginning of the period (\$) | | Account value at the end of the period (\$) | | Expenses paid during the period (\$) | | Fund's annualized expense ratio (%) |
|----------------------------------|---|--------------|---|--------------|--|--------------|--|
| | Actual | Hypothetical | Actual | Hypothetical | Actual | Hypothetical | Actual |
| Small Cap Fund | | | | | | | |
| Class A | 1,000.00 | 1,000.00 | 1,231.80 | 1,018.21 | 7.81 | 7.06 | 1.39 |
| Class C | 1,000.00 | 1,000.00 | 1,227.60 | 1,014.43 | 12.00 | 10.85 | 2.14 |
| Class I | 1,000.00 | 1,000.00 | 1,234.60 | 1,020.17 | 5.62 | 5.08 | 1.00 |
| Small-Mid Cap Fund | | | | | | | |
| Class A | 1,000.00 | 1,000.00 | 1,274.30 | 1,018.46 | 7.67 | 6.81 | 1.34 |
| Class C | 1,000.00 | 1,000.00 | 1,269.00 | 1,014.69 | 11.93 | 10.59 | 2.09 |
| Class I | 1,000.00 | 1,000.00 | 1,276.30 | 1,020.43 | 5.44 | 4.83 | 0.95 |
| Large Cap Fund | | | | | | | |
| Class A | 1,000.00 | 1,000.00 | 1,254.20 | 1,019.22 | 6.75 | 6.05 | 1.19 |
| Class C | 1,000.00 | 1,000.00 | 1,250.50 | 1,015.44 | 10.99 | 9.84 | 1.94 |
| Class I | 1,000.00 | 1,000.00 | 1,256.80 | 1,021.18 | 4.54 | 4.07 | 0.80 |
| Select Fund | | | | | | | |
| Class A | 1,000.00 | 1,000.00 | 1,263.30 | 1,018.72 | 7.34 | 6.54 | 1.29 |
| Class C | 1,000.00 | 1,000.00 | 1,257.40 | 1,014.94 | 11.59 | 10.34 | 2.04 |
| Class I | 1,000.00 | 1,000.00 | 1,265.10 | 1,020.69 | 5.11 | 4.56 | 0.90 |
| Long-Short Fund | | | | | | | |
| Class A | 1,000.00 | 1,000.00 | 1,146.20 | 1,015.67 | 10.23 | 9.61 | 1.89 |
| Class C | 1,000.00 | 1,000.00 | 1,141.80 | 1,011.89 | 14.26 | 13.40 | 2.64 |
| Class I | 1,000.00 | 1,000.00 | 1,149.10 | 1,017.63 | 8.14 | 7.64 | 1.50 |
| Financial Long-Short Fund | | | | | | | |
| Class A | 1,000.00 | 1,000.00 | 1,241.40 | 1,016.21 | 10.08 | 9.06 | 1.78 |
| Class C | 1,000.00 | 1,000.00 | 1,236.60 | 1,012.43 | 14.29 | 12.86 | 2.53 |
| Class I | 1,000.00 | 1,000.00 | 1,244.30 | 1,018.18 | 7.88 | 7.09 | 1.39 |
| Strategic Income | | | | | | | |
| Class A | 1,000.00 | 1,000.00 | 1,153.20 | 1,019.72 | 5.91 | 5.54 | 1.09 |
| Class C | 1,000.00 | 1,000.00 | 1,148.90 | 1,015.94 | 9.95 | 9.34 | 1.84 |
| Class I | 1,000.00 | 1,000.00 | 1,155.60 | 1,021.68 | 3.80 | 3.56 | 0.70 |

You can find more information about the Fund's expenses, including annual expense ratios for historical periods in the Financial Statements section of this report. For additional information on operating expenses and other shareholder costs, please refer to the Fund's prospectus. The prospectus presents hypothetical shareholder costs over various time periods based upon a \$10,000 investment and a return of 5% a year. This standardized example, which appears in all mutual fund prospectuses, may be useful to you in comparing the costs of investing in different funds.

Diamond Hill Funds

Management of the Trust (unaudited)

Listed in the charts below is basic information regarding the Trustees and officers of the Trust.

TRUSTEES:

| Name/ Address/ ¹ Age | Position(s) Held with Trust | Term of Office ² and Length of Time Served | Principal Occupation(s) At Least The Last 5 Years | Number of Portfolios in Fund Complex Overseen by Trustee ³ |
|---|--------------------------------|--|--|---|
| Thomas E. Line Year of Birth: 1967 | Chairman Trustee | Since November 2005 | Senior Managing Director and Chief Financial Officer, Red Capital Group (mortgage and investment banking subsidiary of PNC Bank), October 2005 to the present; Vice President and Treasurer, Red Capital Group, September 2004 to October 2005; President, Focused Financial Consulting, Inc. (financial consulting), March 2002 to September 2004; Chief Operating Officer, Meeder Financial, Inc. (parent of investment adviser and mutual fund servicing companies), June 1998 to March 2002. | 7 |
| Elizabeth P. Kessler Year of Birth: 1968 | Trustee | Since November 2005 | Attorney and Partner-in-charge, Columbus Ohio office - Jones Day | 7 |
| D'Ray Moore Rice Year of Birth: 1959 | Trustee | Since August 2007 | Retired, Community Volunteer. Trustee of American Performance Funds from October 2004 to October 2007. | 7 |
| George A. Skestos Year of Birth: 1968 | Trustee | Since August 2000 | Managing Member, Arcadia Holdings, LLC (private investment banking firm), May 2001 to the present; President of Homewood Corporation (real estate development firm), January 2000 to the present. | 7 |

PRINCIPAL OFFICERS:

| Name/ Address/ ¹ Age | Position(s) Held with Trust | Term of Office and Length of Time Served | Principal Occupation(s) At Least the Last 5 Years |
|---|--|---|---|
| James F. Laird, Jr. ⁴ Year of Birth: 1957 | President | Since December 2001 | Chief Financial Officer of Diamond Hill Investment Group, Inc., since December 2001. President of Diamond Hill Securities since July 2001. Vice President Corporate Strategy with Nationwide Insurance from January 2001 to July 2001. Senior Vice President Product Development with Villanova Capital from February 1999 through December 2000. |
| Gary R. Young ⁴ Year of Birth: 1969 | Treasurer, Secretary and Chief Compliance Officer | Since May 2004 Since September 2004 | Controller of Diamond Hill Investment Group, Inc. since April 2004. Director of Mutual Fund Administration with Banc One Investment Advisors October 1998 through April 2004. Vice President and Manager of Mutual Fund Accounting and Financial Reporting with First Chicago NBD January 1996 through October 1998. |

¹ The address of each Trustee and Officer is 325 John H. McConnell Boulevard - Suite 200, Columbus, Ohio 43215.

² Each Trustee is elected to serve in accordance with the Declaration of Trust and Bylaws of the Trust until his or her successor is duly elected and qualified.

³ No other directorships are held by any Trustee.

⁴ Mr. Laird and Mr. Young are each an "interested person" of the Trust as defined in the Investment Company Act of 1940, as amended, because of their relationship with Diamond Hill Capital Management, Inc.

The Statement of Additional Information contains additional information about the Trustees and is available without charge on www.diamond-hill.com or by calling 1-888-226-5595.

NOTICE OF PRIVACY POLICY

In order to enhance our ability to provide you with the best service possible, the Diamond Hill Funds (referred to as “we” or “us”) collects, uses and shares certain information about you. This policy explains what information we collect and with whom we share it. The practices described in this policy are applicable to all customers, including prospective, current and former customers. The policy also explains how we protect the security and confidentiality of certain customer information. We make reference to our “affiliates” in this policy. Affiliates are companies related to us by common control, including Diamond Hill Capital Management, Inc., Diamond Hill Investment Group, Inc., Beacon Hill Fund Services, and BHIL Distributors, Inc.

SAFEGUARDING PRIVACY

We maintain physical, electronic and procedural safeguards that comply with federal standards to ensure the safety of non-public personal customer information.

INFORMATION WE COLLECT AND SOURCES OF INFORMATION

We may collect information about our customers to help identify you, evaluate your application, service and manage your account and offer services and products you may find valuable. We collect this information from a variety of sources including:

- Information we receive from you on applications or other forms (e.g. your name, address, date of birth, social security number and investment information).
- Information about your transactions and experiences with us and our affiliates (e.g. your account balance, transaction history and investment selections); and
- Information we obtain from third parties regarding their brokerage, investment advisory, custodial or other relationships with you (e.g. your account number, account balance and transaction history).

INFORMATION WE SHARE WITH SERVICE PROVIDERS

We may disclose all non-public personal information we collect, as described above, to companies (including affiliates) that perform services on our behalf, including those that assist us in responding to inquiries, processing transactions, preparing and mailing account statements and other forms of shareholder services provided they use the information solely for these purposes and they enter into a confidentiality agreement regarding the information.

INFORMATION WE SHARE WITH AFFILIATES

Our affiliates are financial service providers that offer investment advisory, brokerage and other financial services. In addition to the information we share with affiliates that provide services to us, we may share information among our affiliates to better assist you in achieving your financial goals.

PRIVACY PROMISE FOR CUSTOMERS

We will safeguard, according to federal standards of security and confidentiality, any non-public personal information our customers share with us.

We will limit the collection and use of non-public customer information to the minimum necessary to deliver superior service to our customers that includes advising our customers about our products and services and to administer our business.

We will permit only authorized employees who are trained in the proper handling of non-public customer information to have access to that information.

We will not reveal non-public customer information to any external organization unless we have previously informed the customer in disclosures or agreements, have been authorized by the customer or are required by law or our regulators.

We value you as a customer and take your personal privacy seriously. We will inform you of our policies for collecting, using, securing and sharing non-public personal information the first time we do business and every year that you are a customer of The Diamond Hill Funds or anytime we make a material change to our privacy policy.

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325 John H. McConnell Blvd., Suite 200
Columbus, Ohio 43215

614.255.3333
www.diamond-hill.com

Investment Adviser

Diamond Hill Capital Management, Inc.

Distributor

BHIL Distributors, Inc.

For additional information, call:

J.P. Morgan Chase Bank N.A.

TOLL FREE 888.226.5595