

Small-Mid Cap Fund

Investment Objective

- ◆ Long-term capital growth by investing in companies selling for less than our appraisal of intrinsic value.
- ◆ Suitable for investors with a 5-plus year investment horizon.

Portfolio Management



Chris Welch, CFA
Manager



Tom Schindler, CFA
Assistant Manager



Chris Bingaman, CFA
Assistant Manager

Investment Strategy

BUY STRATEGY The Fund seeks to buy securities of companies at prices below our appraisal of intrinsic value. To determine intrinsic value, the business must be understandable and the cash flows must be reasonably estimable. In addition, we seek businesses with a lasting competitive advantage and management with an owner mentality such that shareholders will reap the rewards of the underlying business performance.

SELL STRATEGY Investments are sold when the stock price approximates our appraised intrinsic value. Ideally, this occurs as the stock price has risen and closed the gap with a growing intrinsic value. In a less than ideal situation, our estimate of intrinsic value may be revised such that the

market price is no longer at a discount to intrinsic value. In cases where we no longer have confidence we can predict with any reasonable accuracy the business cash flows, the mistake is admitted and the investment is sold. Finally, we may sell one investment in order to raise proceeds for investment in a more attractive alternative.

FUND STRUCTURE Typically 40-70 positions. Maximum sector exposure is 35%.

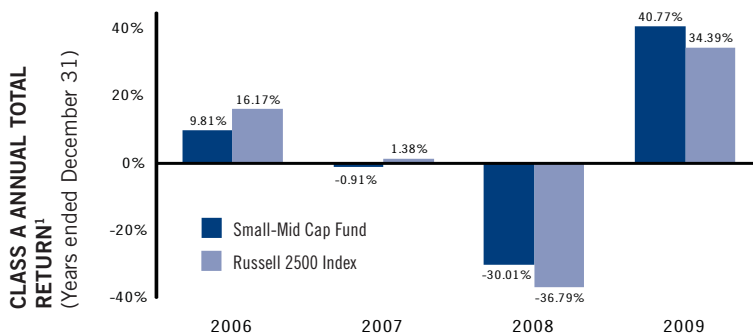
MARKET CAPITALIZATION The Fund normally invests at least 80% of its net assets in small and medium capitalization companies, defined as those companies with a market capitalization between \$500 million and \$10 billion at the time of purchase or those companies in the Russell 2500 Index.

Performance Update

Period & Average Annual Total Returns as of December 31, 2009

	Fourth Quarter	One Year	Three Years	Five Years	Since Inception (12/30/05)	Total Expense Ratio
PERFORMANCE AT NAV <i>without sales charges</i>						
Class A Shares	6.46%	40.77%	-0.80%	—	1.76%	1.36%
Class C Shares	6.27%	39.86%	-1.51%	—	1.04%	2.11%
Class I Shares	6.53%	41.36%	-0.39%	—	2.15%	0.97%
BENCHMARK						
Russell 2500 Index	5.08%	34.39%	-4.86%	—	0.01%	—
PERFORMANCE AT POP <i>includes sales charges</i>						
Class A Shares	1.09%	33.77%	-2.47%	—	0.45%	1.36%
Class C Shares	5.27%	38.86%	-1.51%	—	1.04%	2.11%

The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the last month-end, within 7 business days, at www.diamond-hill.com.



The Russell 2500 Index is a market-capitalization weighted index measuring performance of the smallest 2,500 companies, on a market capitalization basis, in the Russell 3000 Index. The Russell 3000 Index is a market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. One cannot invest directly in an index. Unlike mutual funds, the index does not incur expenses. If expenses were deducted, the actual returns of this index would be lower.

¹ Figures do not reflect sales charges. If they did, the returns would be lower.

Best Performers

Security Name	Fourth Quarter Contribution ²	Position as of December 31
Cimarex Energy Co.	0.85%	4.2%
Chattem, Inc.	0.50%	1.5%
Encore Acquisition Co.	0.47%	1.9%
Assured Guaranty Ltd.	0.36%	2.5%
King Pharmaceuticals, Inc.	0.34%	2.9%

Worst Performers

Security Name	Fourth Quarter Contribution ²	Position as of December 31
Old Republic International Corp.	-0.40%	2.4%
Huntington Bancshares, Inc.	-0.34%	1.1%
Flowers Foods, Inc.	-0.22%	2.5%
Assurant, Inc.	-0.18%	2.0%
AirTran Holdings, Inc.	-0.17%	0.8%

New Positions

Security Name	Position as of December 31
Exterran Holdings, Inc.	0.9%
GameStop Corp.	0.7%

Eliminated Positions

Security Name
Hanesbrands, Inc.
Harley-Davidson, Inc.
Lance, Inc.
Paychex, Inc.

Top Ten Holdings

Security	Industry	% of Portfolio
Cimarex Energy Co.	Oil, Gas, & Consumable Fuels	4.2%
Noble Energy, Inc.	Oil, Gas, & Consumable Fuels	3.9%
Dover Corp.	Machinery	3.1%
King Pharmaceuticals, Inc.	Pharmaceuticals	2.9%
Verigy Ltd.	Semiconductor Equipment	2.7%
ConAgra Foods, Inc.	Food Products	2.5%
Flowers Foods, Inc.	Food Products	2.5%
Assured Guaranty Ltd.	Insurance - Property & Casualty	2.4%
Old Republic International Corp.	Insurance	2.4%
Southwestern Energy Co.	Oil, Gas, & Consumable Fuels	2.0%

Portfolio Statistics *(Portfolio composition is subject to change)*

Total Net Assets	\$39M
Median Market Capitalization	\$2.2B
Portfolio Turnover Rate (12 months trailing)	74%
Number of Equity Securities in Portfolio	59
% of Net Assets in Cash & Cash Equivalents	17.8%
Weighted Average Trailing Dividend Yield	1.82%

Risk Statistics *(Since Inception, Class A Load Waived)*

Annualized Standard Deviation (%)	22.90
Beta (%)	0.99
Sharpe Ratio	0.07
Alpha (%)	1.84
R-squared (%)	91.25
Upside / Downside Capture Ratio (%)	98 / 92

Sector Allocation *(Overweight in bold)*

	Financials	Energy	Industrials	Consumer Staples	Health Care	Consumer Discretionary	Utilities	Information Technology	Materials	Telecom	Other	Cash & Equiv.
Small-Mid Cap Fund	17.1%	16.6%	10.9%	10.7%	8.2%	8.0%	5.5%	5.2%	—	—	—	17.8%
Russell 2500 Index	20.0%	5.3%	14.0%	3.7%	12.1%	14.3%	5.8%	15.6%	7.3%	1.7%	0.2%	—

Fund Identification & Expenses

	Ticker Symbol	CUSIP	Maximum Front-End Sales Charge	Contingent Deferred Sales Charge	Management Fee	Distribution Fee (12b-1)	Other Expenses	Net Operating Expenses	Minimum Initial Investment: Classes A & C: \$2,500 Class I: \$50,000
A Shares	DHMAX	25264S817	5.00%	None	0.75%	0.25%	0.36%	1.36%	Distributions: Annual
C Shares	DHMCX	25264S791	None	1.00%	0.75%	1.00%	0.36%	2.11%	Lipper Classification: Mid-Cap Core
I Shares	DHMIX	25264S783	None	None	0.75%	None	0.22%	0.97%	Morningstar Classification: Mid-Cap Value

²Contribution to Return (CR) is an approximate measure of the contribution by an individual position to the overall portfolio return of the stated period. A daily contribution for each position is calculated by multiplying the position's daily ending position weight by its daily total return. The daily total return is determined by summing the end of day stock price and any dividends and dividing the result by the beginning stock price. These daily contributions are then geometrically linked to determine the CR for the entire stated period. The holdings identified do not represent all of the securities purchased, sold, or held in the Fund, and past performance does not guarantee future results.

Performance is not guaranteed. Performance returns assume reinvestment of all distributions. The total return figures for the Fund reflect the maximum sales charge applicable to each class. Class I and Class C shares include performance based on Class A shares, which was achieved prior to the creation of Class I and Class C shares. Class C returns have been restated for sales charges and for fees applicable to Class C shares, which includes a 1.00% 12b-1 fee. These total return figures may reflect the waiver of a portion of a Fund's advisory or administrative fees for certain periods. In such instances, and without such waiver of fees, the total returns would have been lower.

Fund holding and sector weightings are subject to change without notice. **There are specialized risks**

associated with small capitalization issues, such as market illiquidity and greater market volatility than large capitalization issues. 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.

The maximum sales charge for A shares is 5.00%; C shares have a maximum contingent deferred sales charge (CDSC) of 1.00% for redemptions within the first year of purchase; I shares have no sales charge. Past performance is no guarantee of future results.

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