

Financial Long-Short Fund

Investment Objective

- ◆ Long-term capital growth by investing in companies selling for less than and shorting companies selling for more than our appraisal of intrinsic value.
- ◆ Seek positive total returns on both long and short positions.
- ◆ Suitable for investors with a 5+ year investment horizon.

Investment Strategy

BUY LONG / SELL SHORT STRATEGY The Fund seeks to buy long or sell short securities of companies at prices below or above 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 LONG / COVER SHORT STRATEGY Investments are sold or shorts covered 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

- A long-biased fund with typically 30–50 long positions and 10–25 short positions.
- Total long positions are between 80–100% of net assets, with total short positions comprising 5–25% of net assets.

EXPOSURE

- Target gross market exposure (long % + short %) = Up to 130%
- Target net market exposure (long % - short %) = Between 50%–75%

The Fund uses short selling which incurs significant additional risk. Theoretically, stocks sold short have the risk of unlimited losses.

Portfolio Management



Chris Bingaman, CFA
Manager



Austin Hawley, CFA
Assistant Manager

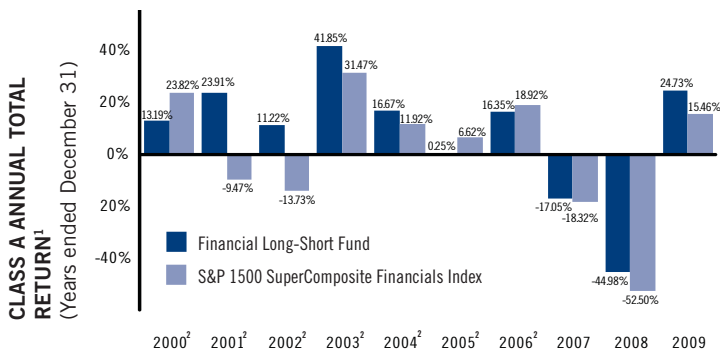


John Loesch, CFA
Assistant Manager

Performance Update

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

	Fourth Quarter	One Year	Three Years	Five Years	Ten Years	Total Expense Ratio
PERFORMANCE AT NAV <i>without sales charges</i>						
Class A Shares	0.35%	24.73%	-17.12%	-7.86%	5.54%	1.89% ⁵
Class C Shares	0.13%	23.81%	-17.79%	-8.59%	4.81%	2.64% ⁵
Class I Shares	0.51%	25.31%	-16.75%	-7.61%	5.68%	1.50% ⁵
BENCHMARK						
S&P 1500 SuperComposite Financials Index	-2.18%	15.46%	-23.22%	-10.55%	-2.04%	—
PERFORMANCE AT POP <i>includes sales charges</i>						
Class A Shares	-4.63%	18.44%	-18.53%	-8.81%	5.00%	1.89%
Class C Shares	-0.86%	22.81%	-17.79%	-8.59%	4.81%	2.64%



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 S&P 1500 SuperComposite Financials Index is a market capitalization-weighted index which is comprised of companies that represent the Financial Services Sector weighting within the S&P 500 SuperComposite. The S&P 1500 SuperComposite is a broad-based market capitalization-weighted index of 1500 U.S. companies that is comprised of the S&P 400, S&P 500 and S&P 600 Indexes. 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.

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

²The fund was long-only from inception through April 2006.

Best Performers

Security Name	Fourth Quarter Contribution ³	Position as of December 31
Assured Guaranty Ltd.	0.59%	4.1%-Long
American Express Co.	0.30%	0.0%-Long
PNC Financial Services Group, Inc.	0.29%	3.2%-Long
PrivateBancorp, Inc.	0.28%	(0.0%)-Short
WesBanco, Inc.	0.18%	(0.8%)-Short
KBW, Inc.	0.11%	(0.7%)-Short

Worst Performers

Security Name	Fourth Quarter Contribution ³	Position as of December 31
Old Republic International Corp.	-0.46%	3.2%-Long
Synovus Financial Corp.	-0.44%	0.6%-Long
Huntington Bancshares, Inc.	-0.37%	1.4%-Long
Prosperity Bancshares, Inc.	-0.24%	(1.7%)-Short
First Financial Bankshares, Inc.	-0.15%	(1.5%)-Short
Home BancShares, Inc.	-0.13%	(1.5%)-Short

New Positions

Security Name	Position as of December 31
Bank of America Corp.	3.0%-Long
BB&T Corp.	1.8%-Long
First of Long Island Corp.	1.1%-Long
MVC Capital, Inc.	1.0%-Long
First California Financial Group, Inc.	0.1%-Long
M&T Bank Corp.	(1.1%)-Short
Hancock Holding Co.	(1.1%)-Short

⁴Only eliminated long/(short) positions representing a 0.6%/(1.4%) or greater position as of September 30 are shown.

Eliminated Positions⁴

Security Name
American Express Co. - Long
Discover Financial Services - Long
Huntington Bancshares, Inc. 4.9% 1/15/14 - Long
Paychex, Inc. - Long
Principal Financial Group, Inc. - Short
PrivateBancorp, Inc. - Short

Top Five Long Holdings

Security	Industry	% of Portfolio
Wells Fargo & Co.	Banking Services	7.1%
JPMorgan Chase & Co.	Financial Services	6.4%
Assured Guaranty Ltd.	Insurance	4.3%
Travelers Cos., Inc.	Insurance	4.0%
U.S. Bancorp	Banking Services	3.8%

Top Five Short Holdings

Security	Industry	% of Portfolio
Prosperity Bancshares, Inc.	Banking Services	(1.7%)
Home BancShares, Inc.	Banking Services	(1.5%)
First Financial Bankshares, Inc.	Banking Services	(1.5%)
M&T Bank Corp.	Banking Services	(1.1%)
Hancock Holding Co.	Banking Services	(1.1%)

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

Total Net Assets	\$10M
Median Market Capitalization—Long/(Short)	\$2.6B/(\$1.1B)
Portfolio Turnover Rate (12 months trailing)	85%*
Number of Long/(Short) Equity Securities in Portfolio	47/(7)
Long/(Short) Securities (% of Net Assets)	97.3%/(8.4%)
Gross Exposure (Long + Short)	105.7%
Net Exposure (Long - Short)	88.9%
% of Net Assets in Cash & Equivalents	2.7%
Weighted Average Trailing Dividend Yield (long only)	2.97%

*This calculation is the lesser of long buys plus short sales or long sales plus short covers divided by the monthly average value of portfolio securities, excluding cash.

5-Year Risk Statistics *(Class A Load Waived)*

Annualized Standard Deviation (%)	25.91
Beta (%)	0.90 [†]
Sharpe Ratio	-0.29
Alpha (%)	1.47 [†]
R-squared (%)	91.67 [†]
Upside / Downside Capture Ratio (%)	88 / 84 [†]

[†]Relative to the S&P 1500 SuperComposite Financials Index.

Industry Allocation *(Overweight in bold)*

	Banking Services	Insurance	Financial Services	REITs & Real Estate Management	Capital Markets	Asset Management	Specialty Finance	Other	Cash & Equiv.
Long Portfolio	41.0%	31.6%	12.3%	5.6%	5.3%	0.5%	—	1.0%	2.7%
S&P 1500 SuperComposite Financials Index	21.0%	17.2%	26.1%	12.7%	18.0%	—	5.0%	—	—
Short Portfolio	(7.7%)	—	—	—	(0.7%)	—	—	—	—

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	BANCX	25264S106	5.00%	None	1.00%	0.25%	0.64%	1.89% ⁵	Distributions: Annual Lipper Classification: Financial Services Morningstar Classification: Specialty - Financial
C Shares	BSGCX	25264S205	None	1.00%	1.00%	1.00%	0.64%	2.64% ⁵	
I Shares	DHFSX	25264S825	None	None	1.00%	None	0.50%	1.50% ⁵	

⁵Includes dividend expense relating to short sales. If dividend expenses relating to short sales were excluded, the Total Expense Ratio for the Financial Long-Short Fund would have been 1.60% for Class A, 2.35% for Class C, and 1.21% for Class I.

³Contribution 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 C shares include performance based on Class A shares, which was achieved prior to the creation of Class C shares. These 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. **The Fund uses short selling which incurs significant additional risk. Theoretically, stocks sold short have unlimited risk. 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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