

# 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 125%
- Target net market exposure (long % - short %) = Between 60%–90%

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

## Portfolio Management



**Chris Bingham, CFA**  
Manager



**Austin Hawley, CFA**  
Assistant Manager

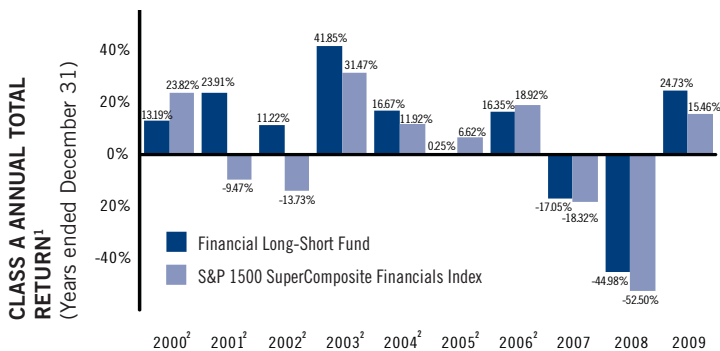


**John Loesch, CFA**  
Assistant Manager

## Performance Update

Period & Average Annual Total Returns as of June 30, 2010	Second Quarter	Year to Date	One Year	Three Years	Five Years	Ten Years	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>							
Class A Shares	-10.52%	1.15%	25.57%	-17.07%	-7.21%	7.31%	1.76% <sup>1</sup>
Class C Shares	-10.65%	0.80%	24.65%	-17.74%	-7.94%	6.57%	2.51% <sup>1</sup>
Class I Shares	-10.40%	1.35%	26.11%	-16.72%	-6.92%	7.48%	1.40% <sup>1</sup>
<b>BENCHMARK</b>							
S&P 1500 SuperComposite Financials Index	-12.65%	-3.03%	18.57%	-23.81%	-10.74%	-2.13%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>							
Class A Shares	-14.99%	-3.92%	19.27%	-18.47%	-8.15%	6.76%	1.76%
Class C Shares	-11.54%	-0.20%	23.65%	-17.74%	-7.94%	6.57%	2.51%

*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](http://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.

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

<sup>2</sup>The fund was long-only from inception through April 2006. Fund inception date: 8/1/1997.

## Best Performers

Security Name	Second Quarter Contribution <sup>3</sup>	Position as of June 30
Horace Mann Educators Corp.	0.1%	1.4%-Long
First of Long Island Corp.	0.1%	1.5%-Long
Assurant, Inc.	0.0%	3.8%-Long
Prosperity Bancshares, Inc.	0.2%	(0.0%)-Short
KBW, Inc.	0.1%	(0.4%)-Short
Home BancShares, Inc.	0.1%	(1.1%)-Short

## Worst Performers

Security Name	Second Quarter Contribution <sup>3</sup>	Position as of June 30
Assured Guaranty Ltd.	-1.7%	3.4%-Long
Wells Fargo & Co.	-1.3%	6.1%-Long
JPMorgan Chase & Co.	-1.2%	6.5%-Long
M&T Bank Corp.	-0.1%	(1.6%)-Short
Hancock Holding Co.	0.0%	(0.0%)-Short
Westamerica Bancorp	0.0%	(0.5%)-Short

## New Positions

Security Name	Position as of June 30
XL Capital Ltd.	2.2%-Long
Popular, Inc.	1.6%-Long
First American Financial Corp.	0.3%-Long

## Eliminated Positions

Security Name
City National Corp. - Long
Comerica, Inc. - Long
First Tenn. Bank Asset Mgmt. 4.5% 5/15/13 - Long
Regions Financing Trust III 8.875% Tr Pfd - Long
Hancock Holding Co. - Short
Prosperity Bancshares, Inc. - Short

## Top Five Long Holdings

Security	Industry	% of Portfolio
JPMorgan Chase & Co.	Financial Services	6.5%
Wells Fargo & Co.	Banking Services	6.1%
Travelers Cos., Inc.	Insurance	4.9%
Assurant, Inc.	Insurance	3.8%
U.S. Bancorp	Banking Services	3.8%

## Top Five Short Holdings

Security	Industry	% of Portfolio
M&T Bank Corp.	Banking Services	(1.6%)
First Financial Bankshares, Inc.	Banking Services	(1.2%)
Home BancShares, Inc.	Banking Services	(1.1%)
Westamerica Bancorp	Banking Services	(0.5%)
KBW, Inc.	Capital Markets	(0.4%)

## Industry Allocation *(Overweight in bold)*

	Insurance	Banking Services	Financial Services	REITs & Real Estate Management	Consumer Financial Services	Asset Managers	Capital Markets	Other	Cash & Equiv.
Long Portfolio	<b>32.8%</b>	<b>31.2%</b>	18.6%	4.4%	4.3%	<b>0.7%</b>	—	<b>0.4%</b>	7.6%
S&P 1500 SuperComposite Financials Index	23.7%	19.5%	25.2%	4.7%	13.0%	—	13.9%	—	—
Short Portfolio	—	(4.3%)	—	—	—	—	(0.4%)	—	—

## 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
<b>A Shares</b>	BANCX	25264S106	5.00%	None	1.00%	0.25%	0.51%	1.76% <sup>4</sup>	Distributions: Annual Lipper Classification: Financial Services Morningstar Classification: Specialty - Financial
<b>C Shares</b>	BSGCX	25264S205	None	1.00%	1.00%	1.00%	0.51%	2.51% <sup>4</sup>	
<b>I Shares</b>	DHFSX	25264S825	None	None	1.00%	None	0.40%	1.40% <sup>4</sup>	

<sup>4</sup>Includes 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 1.57% for Class A, 2.32% for Class C, and 1.21% for Class I.

<sup>3</sup>Contribution 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 previous day 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. 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.

**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](http://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](http://www.diamond-hill.com). Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.**

**\*Risk Statistic Definitions: Standard Deviation** is a statistical measure of the historical volatility of the portfolio. **Beta** is a measure of the volatility of a portfolio relative to the overall market. **Sharpe Ratio** is a risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. **Alpha** is a measure of the incremental return generated from active portfolio management. **R-squared** represents the percentage of the portfolio's movements that can be explained by the general movements of the market. **Upside/Downside Capture Ratio** measures a manager's ability to generate excess return above the benchmark return in up markets and retain more of the excess return in down markets. The upside/downside capture ratio is the Fund's up/down market return divided by the index's up/down market return. The up/down market return equals the linked returns for all quarters in which the index return was greater/less than zero.

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

Total Net Assets	\$13M
Median Market Capitalization—Long/(Short)	\$2.7B/(\$1.0B)
Portfolio Turnover Rate (12 months trailing)	71%*
Number of Long/(Short) Equity Securities in Portfolio	50/(5)
Long/(Short) Securities (% of Net Assets)	92.4%/(4.7%)
Gross Exposure (Long + Short)	97.1%
Net Exposure (Long - Short)	87.7%
% of Net Assets in Cash & Equivalents	7.6%

\*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 (%)	26.53
Beta (%)	0.90 <sup>†</sup>
Sharpe Ratio	- 0.25
Alpha (%)	2.38 <sup>†</sup>
R-squared (%)	91.55 <sup>†</sup>
Upside / Downside Capture Ratio (%)	89 / 83 <sup>†</sup>

<sup>†</sup>Relative to the S&P 1500 SuperComposite Financials Index.