

Strategic Income Fund

Investment Objective

- ◆ Providing current income and an attractive total return.
- ◆ Suitable for investors with a 3-5 year investment horizon.

Portfolio Management



Bill Zox, CFA
Manager



Chris Bingaman, CFA
Assistant Manager



Bill Dierker, CFA
Assistant Manager

Investment Strategy

BUY STRATEGY The Fund selects income-producing securities after performing a risk/reward analysis including an evaluation of interest rate, credit, and other risks. Securities are purchased when the compensation received for bearing risk is attractive compared to the risks borne. The Fund allocates relatively more of its investments to those sectors that are expected to offer the best prospects for current income and capital appreciation.

SELL STRATEGY Generally securities are held

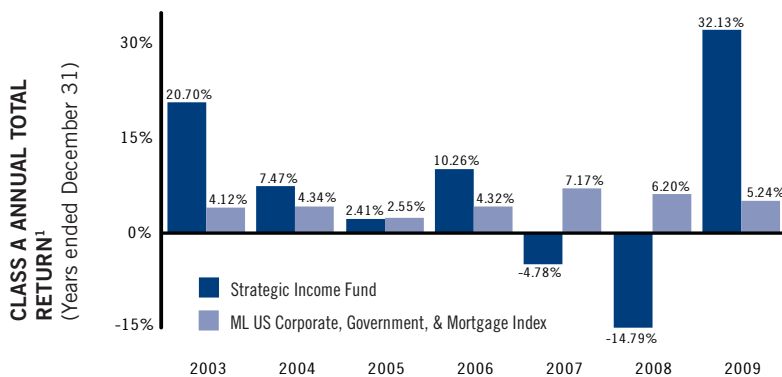
until they mature or are called. Securities may also be sold because they are no longer attractive on either an absolute basis or relative to other opportunities available to the Fund.

INVESTMENT UNIVERSE The Fund invests at least 80% of its total net assets in income-producing securities, including Treasury bills, Treasury/Agency securities, mortgage-backed securities, investment grade and non-investment grade corporate bonds, trust preferreds, closed-end mutual funds, real estate investment trusts and master limited partnerships.

Performance Update

Period & Average Annual Total Returns as of December 31, 2009	Fourth Quarter	One Year	Three Years	Five Years	Since Inception (9/30/02)	Total Expense Ratio
PERFORMANCE AT NAV <i>without sales charges</i>						
Class A Shares	3.68%	32.13%	2.35%	3.90%	7.07%	1.10%
Class C Shares	3.60%	31.34%	1.62%	3.13%	6.36%	1.85%
Class I Shares	3.78%	32.69%	2.75%	4.30%	7.35%	0.71%
BENCHMARK						
Merrill Lynch U.S. Corporate, Government & Mortgage Index	0.03%	5.24%	6.19%	5.08%	4.89%	—
PERFORMANCE AT POP <i>includes sales charges</i>						
Class A Shares	0.06%	27.51%	1.15%	3.16%	6.55%	1.10%
Class C Shares	2.60%	30.34%	1.62%	3.13%	6.36%	1.85%

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 Merrill Lynch US Corporate, Government & Mortgage Index includes 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 Merrill Lynch US Corporate, Government & Mortgage Index does not take into account the deduction of expenses associated with a mutual fund, such as investment management and accounting fees. 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.

Security Type Allocation

	Corporate Bonds	Preferreds	Asset-Backed Securities	Common Stocks	Limited Partnerships	Municipal Bonds	Government Bonds	Mutual Funds	Cash
Strategic Income Fund	86.2%	6.5%	0.4%	0.2%	—	—	—	—	6.7%



Top Ten Holdings

Security	% of Portfolio
Freeport-McMoRan Copper & Gold 8.25% 4/1/15	4.3%
National Semiconductor 6.6% 6/15/17	4.0%
Fifth Third Bancorp 5.45% 1/15/17	3.9%
TransAtlantic Holdings 5.75% 12/14/15	3.9%
BE Aerospace, Inc. 8.5% 7/1/18	3.8%
Hartford Financial Services 6.3% 3/15/18	3.8%
Expedia, Inc. 8.5% 7/1/16	3.8%
KLA Instruments Corp. 6.9% 5/1/18	3.7%
National City Bank 5.25% 12/15/16	2.8%
Fortune Brands, Inc. 4.875% 12/1/13	2.8%

Bond & Preferred Security Quality Rating

Quality Rating	% of Portfolio
AAA	0.0%
AA	0.0%
A	5.9%
BBB	59.7%
BB	21.5%
B	2.6%
CCC	2.1%
C	0.8%
NR	0.5%
Average Quality	BBB

Quarterly Dividend Distribution per Share (paid monthly)

	Class A	Class C	Class I
Q1 2009	0.174	0.161	0.182
Q2 2009	0.175	0.158	0.182
Q3 2009	0.174	0.156	0.183
Q4 2009	0.155	0.136	0.164
Last Four Quarters	0.678	0.611	0.711

5-Year Risk Statistics (Class A Load Waived)

Annualized Standard Deviation (%)	8.96
Beta (%)	1.01 [†]
Upside / Downside Capture Ratio (%)	101 / 138 [†]

[†] Relative to the LB Aggregate Bond Index.

Portfolio Statistics (Portfolio composition is subject to change)

Total Net Assets	\$128M
Portfolio Turnover Rate (12 months trailing)	83%
Number of Holdings in Portfolio	53
% of Net Assets in Cash & Cash Equivalents	6.7%
30-day Distribution Yield (at NAV)	
A Shares	3.78%
C Shares	2.95%
I Shares	4.14%

Fund Identification & Expenses

	Ticker Symbol	CUSIP	Maximum Front-End Sales Charge	Contingent Deferred Sales Charge	Management Fee	Distribution Fee (12b-1)	Other Expenses	Total Expense Ratio	Minimum Initial Investment: Classes A & C: \$2,500 Class I: \$50,000
A Shares	DSIAX	25264S882	3.50%	None	0.50%	0.25%	0.35%	1.10%	Distributions: Monthly Lipper Classification: Flexible Income Morningstar Classification: Multi-sector Bond
C Shares	DSICX	25264S874	None	1.00%	0.50%	1.00%	0.35%	1.85%	
I Shares	DHSTX	25264S866	None	None	0.50%	None	0.21%	0.71%	

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 shares include performance based on Class A shares, which was achieved prior to the creation of Class I shares. 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 are subject to change without notice. **The value of fixed-income securities varies inversely with interest rates; that is, as interest rates rise, the market value of fixed-income securities will decline.**

Lower quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. 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 3.50%; 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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