Quarterly Commentary

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

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2009 Fourth Quarter Review

"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%. 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.

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 were 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 our recent special investment letter "Managing Risk and What We Learned from the Crisis," by Chris Welch, CFA and Portfolio Manager, posted on our website at www.diamond-hill.com.

Fourth Quarter Performance

In October, the S&P 500 Index posted the first monthly decline since February 2009, falling 1.9%. Only the energy and consumer staples sectors posted positive returns in October. However, with positive monthly returns in both November and December, the S&P 500 finished the quarter on a strong note, up 6.0% for the 2009 fourth quarter. 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.

For the full year 2009, the information technology (+61.7%), materials (+48.6%), and consumer discretionary (+41.3%) sectors posted the best returns, outperforming the S&P 500 Index total return of 26.5%. All sectors finished the year with positive returns, with the telecommunications sector (+8.9%) posting the weakest performance.

Corporate Earnings and Economic News

The 2009 third quarter earnings season concluded on another positive note. With the exception of the financial sector, which missed expectations by 20%, all sectors beat consensus estimates. More than half of all companies beat expectations by 5% or more. Cost cutting continued to be the primary driver of better than expected earnings, and continuing the pattern established earlier this year, the market did not differentiate between those companies that beat expectations via higher revenue or lower costs.

The economic news was mixed during the quarter. Preliminary third quarter 2009 GDP was reported in October, up 3.5% and well above consensus, only to be revised down in November to 2.8% and again in December to 2.2%. Even without the revisions, 3.5% was a very low GDP number relative to past cyclical recoveries. Despite rising unemployment, the Conference Board Consumer Confidence Index improved in December, driven by higher consumer expectations. Retail sales posted their fourth consecutive monthly increase in December, while prices remained under control. In the corporate sector, capacity utilization increased, but durable goods orders declined.

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. 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.

Although debt service metrics have improved, the absolute level of debt is still weighing on the individual consumer. Because the consumer is fairly highly leveraged, we would expect consumer spending to remain under pressure and the savings rate to continue to creep higher over the next few years. As a result, we continue to believe the issues surrounding consumer wealth will be challenging for some time to come.

All of this suggests a head wind for the consumer discretionary sector and other more cyclical economic sectors. 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.

Laurie

Laurie Riebel, CFA
Client Portfolio Manager

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 opinion, 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. 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. The portfolio holdings are subject to change.

Small Cap Fund

DIAMOND HILL® funds

Portfolio Management


Tom Schindler, CFA
Manager


Chris Welch, CFA
Assistant Manager


Chris Bingaman, CFA
Assistant Manager

The Fund increased 5.03% (Class A, without sales charge) in the fourth quarter, outperforming the Russell 2000 Index. The Index return was 3.87%.

For the third consecutive quarter, all sectors provided positive contributions to return with investments in the energy and health care sectors providing the highest contributions to return.

In the energy sector, positions in oil and natural gas exploration and production companies performed well, due to an improving economic outlook and confidence in higher commodity prices. Cimarex Energy Co. was a top performer again this quarter, as the company continued to see increasing visibility in production growth led by productivity gains in the Cana Shale and the Gulf Coast region. Oil and natural gas explorer, Whiting Petroleum Corp. continued to see improving results in the Bakken oil field and announced a promising new oil discovery in the Lewis and Clark prospect. However, our position in Hornbeck Offshore Services, Inc. detracted from performance during the quarter, due to weaker than expected pricing and utilization levels for their offshore supply vessels. We expect the company's newbuild program, which is progressing on plan, to contribute to earnings in 2010 and 2011.

In the health care sector, several positions enjoyed strong performance as it seemed likely that the U.S. Government's reform of the medical system would be less ambitious and less costly than earlier versions of the bill. Lifepoint Hospitals, Inc. benefitted from investors' recognition that the stock's discounted valuation relative to peers was unwarranted, given the high barriers to entry in rural hospital settings and the potential for expansion in health care coverage as a result of health care reform. Also within the health care sector, Res-Care, Inc. detracted from performance after announcing a jury verdict of $54 million against the company related to an incident from five years ago. Some investors are concerned that the verdict could impact the company's acquisition strategy, although the company is self-insured and intends to appeal the verdict.

Positions in the consumer staples, financial and consumer discretionary sectors also contributed to fourth quarter performance. Chattem, Inc. received an acquisition offer from Sanofi-Aventis[1] at $93.50 per share, a 34% premium over the previous close. Assured Guaranty Ltd. completed an equity raise during the fourth quarter, which was an important component of a capital plan designed to strengthen the balance sheet and eliminate credit rating uncertainty. Steiner Leisure Ltd. posted third quarter earnings that were well ahead of expectations and included sequential revenue and margin improvement. Steiner also announced a cash acquisition of spa operator, Bliss World Holdings, from Starwood Hotels[1].

Other positions that detracted from fourth quarter performance included Old Republic International Corp., Huntington Bancshares, Inc. and Flowers Foods, Inc. Although Old Republic's results were better than expected, their earnings continued to be hurt by the mortgage insurance segment of their business. During the fourth quarter, Old Republic's stock was trading at an increasingly large discount to tangible book value and to our assessment of intrinsic value. Huntington declined primarily due to investor concerns about real estate exposure in their loan portfolio and related credit difficulties. With their earnings release in November, Flowers Foods provided 2010 guidance,

Performance Update

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

	Fourth Quarter	One Year	Three Years	Five Years	Since Inception (12/29/00)	Total Expense Ratio
PERFORMANCE AT NAV *without sales charges*						
Class A Shares	5.03%	28.92%	-2.81%	2.10%	10.61%	1.41%
Class C Shares	4.85%	27.99%	-3.54%	1.33%	9.78%	2.16%
Class I Shares	5.16%	29.43%	-2.43%	2.48%	10.84%	1.02%
BENCHMARK						
Russell 2000 Index	3.87%	27.17%	-6.07%	0.51%	4.26%	—
PERFORMANCE AT POP *includes sales charges*						
Class A Shares	-0.23%	22.47%	-4.46%	1.05%	9.98%	1.41%
Class C Shares	3.85%	26.99%	-3.54%	1.33%	9.78%	2.16%

which may have been disappointing to some investors. However, revenues and earnings rose during the quarter, and volume declines were more than offset by higher prices.

During the quarter, we established a new position in Global Sources Ltd., a business-to-business provider of integrated sourcing and marketing solutions.

We eliminated our positions in oil and gas driller, Helmerich & Payne, Inc.; manufacturer and distributor of snack foods, Lance, Inc.; oil field services product manufacturer, Lufkin Industries, Inc.; bank holding company, Taylor Capital Group, Inc.; and healthcare instrument provider Waters Corp., as their prices neared or reached our estimates of intrinsic value.

Mentioned Securities and Respective Weights as of December 31, 2009

Assured Guaranty Ltd.	3.1%	Hornbeck Offshore Services, Inc.	1.2%	Res-Care, Inc.	1.5%
Chattem, Inc.	3.4%	Huntington Bancshares, Inc.	0.8%	Steiner Leisure Ltd.	2.6%
Cimarex Energy Co.	3.5%	Lance, Inc.	–	Taylor Capital Group, Inc.	–
Flowers Foods, Inc.	2.7%	Lifepoint Hospitals, Inc.	1.9%	Waters Corp.	–
Global Sources Ltd.	0.3%	Lufkin Industries, Inc.	–	Whiting Petroleum Corp.	2.2%
Helmerich & Payne, Inc.	–	Old Republic International Corp.	2.3%		

[1] Not held in Diamond Hill Funds.

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The portfolio holdings are subject to change. **There are specialized risks associated with small capitalization issues, such as market illiquidity and greater market volatility than large capitalization issues.** Performance is not guaranteed. ***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. 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 Funds' 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 2000 Index is a market-capitalization weighted index measuring performance of the smallest 2,000 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.

Performance returns assume reinvestment of all distributions. Average annual total returns illustrate the annual compounded returns that would have produced the cumulative total return if the Fund's performance had remained constant throughout the period indicated. Returns for the periods less than one year are not annualized. The total return figures for the Funds do not reflect the applicable sales charge for each class. 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. The investment return and net asset value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than the original purchase price. 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.

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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Small-Mid Cap Fund

DIAMOND HILL® funds

Portfolio Management

Chris Welch, CFA
Manager

Tom Schindler, CFA
Assistant Manager

Chris Bingaman, CFA
Assistant Manager

The Fund increased 6.46% (Class A, without sales charge) in the fourth quarter, outperforming the Russell 2500 Index. The Index return was 5.08%.

With the exception of the financials sector, which provided a modest negative contribution to return, all other sectors provided positive contributions. The energy and health care sectors provided the highest contribution to return.

In the energy sector, positions in oil and natural gas exploration and production companies performed well, due to an improving economic outlook, confidence in higher commodity prices and increased merger and acquisition activity. Cimarex Energy Co. was a top performer again this quarter, as the company continued to see increasing visibility in production growth led by productivity gains in the Cana Shale and the Gulf Coast region. Oil and natural gas developer, Encore Acquisition, was the target of an acquisition by Denbury Resources, Inc.[1] during the fourth quarter, pushing Encore's stock price higher. Noble Energy, Inc. also contributed significantly to the portfolio's performance with the announcement of new pricing contracts for a substantial natural gas discovery in offshore Israel beginning production in 2012.

In the health care sector, several positions enjoyed strong performance as it seemed likely that the U.S. Government's reform of the medical system would be less ambitious and less costly than earlier versions of the bill. King Pharmaceuticals, Inc. benefited from the launch of a new drug, Embeda, for moderate-to-severe pain management and a life extension for its largest selling drug, Skelaxin, as a competitor drug failed to launch on time. Finally, pharmaceutical distributor, Cardinal Health, Inc., posted third quarter earnings that exceeded expectations. With both bulk and non-bulk portions of their distribution business experiencing healthy top line growth, investors saw this as a sign that Cardinal's new CEO has a firm grasp on the business.

Consumer staples company, Chattem, Inc. also contributed significantly to performance in the fourth quarter, receiving an acquisition offer from Sanofi-Aventis[1] at $93.50 per share, a 34% premium over the previous close.

In the financials sector, Huntington Bancshares, Inc. and Old Republic International Corp. both detracted from performance. Huntington declined primarily due to investor concerns about real estate exposure in their loan portfolio and related credit difficulties. Although Old Republic's results were better than expected, their earnings continued to be hurt by the mortgage insurance segment of their business. During the fourth quarter, Old Republic's stock was trading at an increasingly large discount to tangible book value and to our assessment of intrinsic value. Certain financial sector holdings were positive contributors to return, including Assured Guaranty Ltd., which completed an equity raise during the fourth quarter. This was an important component of a capital plan designed to strengthen the balance sheet and eliminate credit rating uncertainty.

Other positions that detracted from fourth quarter performance included Flowers Foods, Inc.; Assurant, Inc. and AirTran Holdings, Inc. With their earnings release in November, Flowers Foods provided 2010 guidance which may have been disappointing to some investors. However, revenues and earnings rose during the quarter, and volume declines were more than offset by higher prices. Similarly, Assurant's fundamentals in the quarter were encouraging, with third quarter earnings above expectations. An ongoing SEC investigation has prevented As-

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 *without sales charges*						
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 *includes sales charges*						
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%

surant from using substantial excess capital to repurchase stock, which has hurt performance. The ownership stake of AirTran Holdings' shareholders was diluted in the fourth quarter, as the company sold common shares and issued convertible securities to improve the balance sheet and liquidity.

During the quarter, we established new positions in oil and natural gas service provider, Exterran Holdings, Inc. and specialty electronic game and entertainment retailer, GameStop Corp. (Cl A).

Finally, we eliminated our positions in apparel manufacturer, Hanesbrands, Inc.; Harley-Davidson, Inc.; manufacturer and distributor of snack foods, Lance, Inc.; and employee benefits service provider, Paychex, Inc., as their prices neared or reached our estimates of intrinsic value.

Mentioned Securities and Respective Weights as of December 31, 2009

AirTran Holdings, Inc.	0.8%	Encore Acquisition	1.9%	Huntington Bancshares, Inc.	1.1%
Assurant, Inc.	2.0%	Exterran Holdings, Inc.	0.9%	King Pharmaceuticals, Inc.	2.9%
Assured Guaranty Ltd.	2.4%	Flowers Foods, Inc.	2.5%	Lance, Inc.	–
Cardinal Health, Inc.	1.6%	GameStop Corp. (Cl A)	0.7%	Noble Energy, Inc.	3.9%
Chattem, Inc.	1.5%	Hanesbrands, Inc.	–	Old Republic International Corp.	2.4%
Cimarex Energy Co.	4.2%	Harley-Davidson, Inc.	–	Paychex, Inc.	–

[1] Not held in Diamond Hill Funds.

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Performance returns assume reinvestment of all distributions. Average annual total returns illustrate the annual compounded returns that would have produced the cumulative total return if the Fund's performance had remained constant throughout the period indicated. Returns for the periods less than one year are not annualized. The total return figures for the Funds do not reflect the applicable sales charge for each class. 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. The investment return and net asset value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than the original purchase price. 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.

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Large Cap Fund

DIAMOND HILL® funds

Portfolio Management

Chuck Bath, CFA
Manager

Bill Dierker, CFA
Assistant Manager

Chris Welch, CFA
Assistant Manager

The Fund increased 7.43% (Class A, without sales charge) in the fourth quarter, outperforming the Russell 1000 Index. The Index return was 6.07%.

For the third consecutive quarter, all sectors provided positive contributions to return with our investments in the health care, energy, and industrials sectors providing the highest contributions to return.

In the health care sector, many positions enjoyed strong performance as it seemed likely that the U.S. Government's reform of the health care system would be less ambitious and less costly than earlier versions of the bill. Our position in medical device maker, Medtronic, Inc., provided the highest contribution to return. During the quarter, Medtronic reported solid earnings with revenue exceeding street expectations. In addition, the company showed gross margin improvement, while maintaining their research and development spending. As a result, Medtronic's management raised their earnings guidance for fiscal year 2010. Our position in health care service provider, UnitedHealth Group, Inc., rose during the quarter, as it became clearer that the new health care legislation would not likely have a government run "public option."

In the energy sector, our positions in exploration and production companies outperformed due to an improving economic outlook and confidence in higher commodity prices. Our position in Devon Energy Corp. provided positive contribution to return. During the quarter, the company announced plans to reposition itself as a high-growth North American onshore company by divesting all of its Gulf of Mexico and international assets. However, our position in offshore oil and gas drilling and exploration company, Transocean Ltd., fell during the quarter, after its management decided to delay cash return to shareholders until the middle of 2010 at the earliest.

In the industrials sector, our position in diversified manufacturer, United Technologies Corp., provided the highest contribution to return. During the quarter, the company's management indicated that order rates for most of its businesses had stabilized and there had been some improvement in Asian markets, including China. Additionally, its management reiterated their focus on cost cutting, including some with potential of becoming permanent, which bodes well for profit growth when revenues improve. However, our position in heavy construction company, Fluor Corporation, declined during the quarter over concerns of slowing new order growth, as the economic slowdown has impacted their orders.

Other positions that declined during the quarter included insurance broker, Marsh & McLennan Companies, Inc., and computer maker, Dell, Inc. Marsh & McLennan declined during the quarter as its consulting business has been hurt by the weak economy and foreign exchange, and it has made little progress in growing its insurance agency platform. Dell declined as it indicated a loss of market share, as the consumer market continued to outperform the corporate market.

During the quarter, we eliminated our position in drug manufacturer, Schering-Plough Corp., and used the proceeds to initiate a position in drug manufacturer, Merck & Co., Inc. These positions were swapped prior to their merger, because the arbitrage spread between the deal value and market value was extremely narrow and we saw Merck as an attractive invest-

Performance Update

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

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PERFORMANCE AT NAV *without sales charges*						
Class A Shares	7.43%	30.21%	-3.27%	3.89%	5.23%	1.20%
Class C Shares	7.24%	29.34%	-3.99%	3.09%	4.41%	1.95%
Class I Shares	7.54%	30.71%	-2.89%	4.29%	5.47%	0.81%
BENCHMARK						
Russell 1000 Index	6.07%	28.43%	-5.36%	0.79%	1.24%	—
PERFORMANCE AT POP *includes sales charges*						
Class A Shares	2.05%	23.72%	-4.91%	2.82%	4.60%	1.20%
Class C Shares	6.24%	28.34%	-3.99%	3.09%	4.41%	1.95%

ment. We also eliminated our position in payments and travel company, American Express Co., which was approaching our estimate of intrinsic value, and used the proceeds to initiate a position in insurance company, Prudential Financial, Inc. During the quarter, American Express rose as it reported significant declines in net charge offs and its cardholders began to increase their spending. Early in the quarter, Prudential declined over confusion about their earnings outlook for the fourth quarter and 2010. Viewing this sell off as unjustified, we used the opportunity to initiate a position in this name at a significant discount to intrinsic value. Finally, we initiated a position in money center bank, JPMorgan Chase & Co., which was trading at a significant discount to intrinsic value, and eliminated our position in medical technology company, CareFusion Corp., as its price reached our estimate of intrinsic value.

Mentioned Securities and Respective Weights as of December 31, 2009

American Express Co.	–	JPMorgan Chase & Co.	1.4%	Schering-Plough Corp.	–
CareFusion Corp.	–	Marsh & McLennan Companies, Inc.	1.4%	Transocean, Ltd.	1.0%
Dell, Inc.	1.5%	Medtronic, Inc.	3.5%	United Technologies Corp.	3.5%
Devon Energy Corp.	4.0%	Merck & Co.	2.0%	UnitedHealth Group, Inc.	2.2%
Fluor Corporation	0.9%	Prudential Financial, Inc.	1.9%		

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Performance returns assume reinvestment of all distributions. Average annual total returns illustrate the annual compounded returns that would have produced the cumulative total return if the Fund's performance had remained constant throughout the period indicated. Returns for the periods less than one year are not annualized. The total return figures for the Funds do not reflect the applicable sales charge for each class. 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. The investment return and net asset value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than the original purchase price. 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.

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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Select Fund

Portfolio Management

Bill Dierker, CFA
Manager

Chuck Bath, CFA
Assistant Manager

Chris Welch, CFA
Assistant Manager

The Fund increased 8.54% (Class A, without sales charge) in the fourth quarter, outperforming the Russell 3000 Index, which was up 5.90%.

For the third straight quarter, all sectors provided positive contributions to return, with our investments in the health care, energy, and consumer staples sectors providing the highest contributions to return.

In the health care sector, many positions enjoyed strong performance as it seemed likely that the U.S. Government's reform of the health care system would be less ambitious and less costly than earlier versions of the bill. Our position in medical device maker, Medtronic, Inc., provided the highest contribution to return. During the quarter, Medtronic reported solid earnings with revenue exceeding street expectations. In addition, the company showed gross margin improvement, while maintaining their research and development spending. As a result, Medtronic's management raised their earnings guidance for fiscal year 2010. Our position in health care service provider, UnitedHealth Group, Inc., rose during the quarter, as it became clearer that the new health care legislation would not likely have a government run "public option."

In the energy sector, our positions in exploration and production companies performed well, as commodity prices increased modestly during the quarter. Specifically, our position in Cimarex Energy Co. was a top contributor to performance, as it continues to see increasing production growth visibility lead by productivity gains in the Cana Shale and Gulf Coast regions. Additionally, our position in Apache Corp. provided positive contribution to return. However, our position in oil and gas equipment maker, Exterran Holdings, Inc., provided negative contribution to results. During the quarter, Exterran reported weaker than expected pricing resulting from reduced activity levels of oil exploration and production companies.

In the consumer staples sector, our position in food wholesaler, Sysco Corp., provided the highest contribution to return. During the quarter, Sysco reported earnings that were better than expected with rising gross profit margins and decreasing operating expenses. In addition, Sysco's management made encouraging comments that deflation is moderating, sales volumes are stabilizing; and, they are focusing on taking market share from weaker, more leveraged competitors.

Other top contributors included software maker, Microsoft Corp., and diversified manufacturer, United Technologies Corp. Microsoft benefited from positive early reviews on its new Windows 7 operating system and greater than expected cost cutting. United Technologies benefited cost cutting, solid earnings, stabilizing order rates for most of its business, and improvement in the Asian markets, including China.

During the quarter, we eliminated our position in drug manufacturer, Schering-Plough Corp., and used the proceeds to initiate a position in drug manufacturer, Merck & Co., Inc. These positions were swapped prior to their merger, because the arbitrage spread between the deal value and market value was extremely narrow, and we saw Merck as an attractive investment. We also eliminated our position in payments and travel company, American Express Co., which was approaching our estimate of intrinsic value, and used the proceeds to initiate a position in insurance company, Prudential Financial, Inc. Dur-

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 *without sales charges*						
Class A Shares	8.54%	32.26%	-2.03%	—	1.68%	1.31%
Class C Shares	8.36%	31.86%	-2.78%	—	0.97%	2.06%
Class I Shares	8.67%	33.63%	-1.63%	—	2.08%	0.92%
BENCHMARK						
Russell 3000 Index	5.90%	28.34%	-5.42%	—	-0.53%	—
PERFORMANCE AT POP *includes sales charges*						
Class A Shares	3.09%	25.63%	-3.69%	—	0.38%	1.31%
Class C Shares	7.36%	30.86%	-2.78%	—	0.97%	2.06%

Select Fund *(cont'd)*

DIAMOND HILL® funds

ing the quarter, American Express rose as it reported significant declines in net charge offs and its cardholders began to increase their spending. Early in the quarter, Prudential declined over confusion about their earnings outlook for the fourth quarter and 2010. Viewing this sell off in Prudential as unjustified, we used the opportunity to initiate a position in this name at a significant discount to intrinsic value. Finally, we initiated a position in insurance company, Assured Guaranty Ltd., which completed an equity offering that strengthened its competitive position and was trading at a significant discount to intrinsic value. We eliminated our position in credit services company, Alliance Data Systems Corp., as its price approached our estimate of intrinsic value.

As it relates to our largest sector exposures, we still feel very good about our energy and health care holdings based upon the fundamental outlook and adequate margins of safety. While we remain underweighted in financials, we added to certain financial names in the fourth quarter. Our purchases were focused on names where the margin of safety was sufficient in addition to the fact that the positions we added to (or increased) have very strong balance sheets.

Mentioned Securities and Respective Weights as of December 31, 2009

Alliance Data Systems Corp.	–	Exterran Holdings, Inc.	1.4%	Schering-Plough Corp.	–
American Express Co.	–	Medtronic, Inc.	3.5%	Sysco Corp.	3.3%
Apache Corp.	3.5%	Merck & Co., Inc.	2.0%	United Technologies Corp.	3.3%
Assured Guaranty Ltd.	2.5%	Microsoft Corp.	2.9%	UnitedHealth Group, Inc.	2.4%
Cimarex Energy Co.	2.1%	Prudential Financial, Inc.	1.8%		

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 opinion, 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. 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.

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The Russell 3000 is a widely recognized unmanaged market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. The Russell 3000 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.

Performance returns assume reinvestment of all distributions. Average annual total returns illustrate the annual compounded returns that would have produced the cumulative total return if the Fund's performance had remained constant throughout the period indicated. Returns for the periods less than one year are not annualized. The total return figures for the Funds do not reflect the applicable sales charge for each class. 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. The investment return and net asset value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than the original purchase price. 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.

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Long-Short Fund

DIAMOND HILL® funds

Portfolio Management

Chuck Bath, CFA
Co-Manager

Ric Dillon, CFA
Co-Manager

Chris Bingaman, CFA
Assistant Manager

The Fund increased 6.12% (Class A, without sales charge) in the fourth quarter, while the long-only Russell 1000 Index return was 6.07%. In the long portion of the portfolio, all sectors provided positive contributions to return, with our investments in the health care, energy, and industrials sectors providing the highest contributions.

In the health care sector, many positions enjoyed strong performance as it seemed likely that any government health care reform bill would be less ambitious and costly than earlier versions. Our position in medical device maker Medtronic, Inc. provided the highest contribution to return. During the quarter, Medtronic reported solid earnings with revenue exceeding street expectations with gross margin improvement, while maintaining their research and development spending, and raising earnings guidance for fiscal year 2010. Our position in managed care provider UnitedHealth Group, Inc., rose during the quarter, as it became clearer that health care reform would not likely have a government run "public option."

In the energy sector, our positions in exploration and production companies benefited from an improving economic outlook and confidence in higher commodity prices. Our position in Devon Energy Corp. provided positive contribution to return, as the company announced plans to reposition itself as a North American onshore company by divesting all of its Gulf of Mexico and international assets. The only energy holding that declined in the quarter was our relatively small position in offshore oil and gas drilling and exploration company, Transocean Ltd.

In the industrials sector, our position in conglomerate United Technologies Corp. provided the highest contribution to return. During the quarter, the company's management indicated that order rates for most of its businesses had stabilized and there had been some improvement in Asian markets, including China. Additionally, its management reiterated their focus on cost cutting, including some seen as permanent, which bodes well for profit growth. However, our position in heavy construction company, Fluor Corporation, declined during the quarter over concerns of slowing new order growth, as the economic slowdown has impacted their orders.

In the short portion of the portfolio, all sectors provided negative contribution to return, led by internet retailer Amazon.com, Inc., and application software developer Salesforce.com, Inc. Amazon.com rose after it released strong third quarter results despite a high valuation. Salesforce.com benefited from continued strong growth in its customer count. MGM MIRAGE was our most successful short position in the quarter, as the market continues to be concerned about their City Center project in Las Vegas. For-profit education company, Corinthian Colleges, Inc., was another successful short position, which was covered during the quarter.

During the quarter, we initiated a position in drug manufacturer Merck & Co., Inc., which acquired competitor Schering-Plough Corp. (which we held). We eliminated our position in American Express, Inc., which was approaching our estimate of intrinsic

Performance Update

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

	Fourth Quarter	One Year	Three Years	Five Years	Since Inception (6/30/00)	Total Expense Ratio
PERFORMANCE AT NAV *without sales charges*						
Class A Shares	6.12%	17.93%	-2.43%	5.69%	6.63%	1.68%[5]
Class C Shares	5.86%	17.02%	-3.18%	4.89%	5.82%	2.43%[5]
Class I Shares	6.21%	18.39%	-2.05%	6.11%	6.86%	1.29%[5]
BENCHMARK						
Russell 1000 Index	6.07%	28.43%	-5.36%	0.79%	-0.60%	—
50% Russell 1000 Index / 50% Citi 3 Month T-Bill	3.06%	14.14%	-1.11%	2.18%	1.39%	—
PERFORMANCE AT POP *includes sales charges*						
Class A Shares	0.80%	12.02%	-4.09%	4.61%	6.05%	1.68%
Class C Shares	4.86%	16.02%	-3.18%	4.89%	5.82%	2.43%

Long-Short Fund *(cont'd)*

value, and initiated positions in insurance companies Prudential Financial, Inc., Assured Guaranty, Ltd., and Assurant, Inc. We also initiated a short position in specialty retailer Jo-Ann Stores, Inc., while covering short positions in coffee roaster Green Mountain Coffee Roasters, Inc. and asset manager Principal Financial Group, Inc.

Mentioned Securities and Respective Weights as of December 31, 2009

Amazon.com, Inc.	(1.4%)	Green Mountain Coffee Roasters, Inc.	–	Salesforce.com, Inc.	(1.5%)
American Express, Inc.	–	Jo-Ann Stores, Inc.	(0.5%)	Schering-Plough Corp.	–
Assurant, Inc.	0.9%	Medtronic, Inc.	3.6%	Transocean, Ltd.	0.8%
Assured Guaranty, Ltd.	2.0%	Merck & Co., Inc.	2.1%	United Technologies Corp.	3.5%
Corinthian Colleges, Inc.	–	MGM MIRAGE	(1.6%)	UnitedHealth Group, Inc.	2.5%
Devon Energy Corp.	3.5%	Principal Financial Group, Inc.	–		
Fluor Corporation	0.9%	Prudential Financial, Inc.	2.1%		

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 opinion, 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. 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.

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The Russell 1000 Index is a market-capitalization weighted index measuring performance of the largest 1,000 companies, on a market capitalization basis, in the Russell 3000 Index, a market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. The blended index represents a 50% weighting of the Russell 1000 Index as described above and a 50% weighting of the Citi 3 Month Treasury Bill Index. The Citi 3 Month Treasury Bill Index is an unmanaged index of three-month Treasury bills. Unlike mutual funds, the index does not incur expenses. If expenses were deducted, the actual returns of this index would be lower.

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Financial Long-Short Fund

DIAMOND HILL® funds

Portfolio Management

Chris Bingaman, CFA
Manager

Austin Hawley, CFA
Assistant Manager

John Loesch, CFA
Assistant Manager

The Fund increased 0.35% (Class A, without sales charge) in the fourth quarter, compared to the S&P 1500 SuperComposite Financials Index, which declined 2.18%.

Unlike the last two quarters, as a whole, the long portfolio provided negative contribution to performance, as the rally in the financial sector did not continue into the fourth quarter. However, long positions in Assured Guaranty Ltd., American Express Co., PNC Financial Services Group, Inc., and City National Corp. each provided substantial positive contributions to performance. During the fourth quarter, Assured Guaranty raised equity to solidify its financial strength ratings at Moody's. With this capital raise, which greatly mitigated ratings uncertainty, the company has improved its already dominant competitive position in the bond insurance industry. Additionally, Assured Guaranty's management indicated that substantial earnings power is expected over the next few years as a result of the FSA acquisition it completed in July. American Express's aggressive actions during the beginning of this credit cycle continued to pay off. During the quarter, American Express indicated that its net charge offs had fallen dramatically and that its card members began to increase spending on its network. Due to these improving fundamentals, the stock increased nicely during the quarter and was eliminated, as it reached our estimate of intrinsic value. PNC's stock reacted positively to the company's third quarter earnings and management's commentary on margins, expenses and continued progress with its integration of last year's National City Corp. acquisition. City National also appreciated during the quarter, as the company announced an FDIC assisted transaction to acquire the assets and deposits of Imperial Capital Bancorp. City National continues to demonstrate strong relative credit metrics and maintains a very attractive, low-cost deposit mix.

Additionally, our preferred holdings generally performed well as many banks continued to raise capital. In particular, preferred stock in both Bank of America Corp. and Wells Fargo Corp. subsidiaries reacted well to both of those companies issuing new common equity to repay their TARP obligations. The Fund also holds the common stock of Bank of America and Wells Fargo, which detracted from quarterly performance as the amount of the common equity capital raised was generally greater than many expected.

Old Republic International Corp. was another long position that detracted from performance. Even though Old Republic's earnings have been better than expectations, its mortgage insurance segment continues to negatively impact earnings. With a tangible book value over $16 a share, we continue to find this position trading at a discount to our estimate of intrinsic value. Also down during the quarter were regional banks, Huntington Bancshares, Inc. and Synovus Financial Corp., which continue to struggle with credit issues primarily due to real estate exposure.

Due to the decline in the financial markets, the short portfolio provided positive contribution to performance. During the quarter, both PrivateBancorp, Inc. and Principal Financial Group, Inc. struggled with fundamental challenges, which caused their stocks to decline and allowed us to cover the positions when they reached our estimate of intrinsic value. Other short positions that declined in value during the quarter included regional bank, WesBanco, Inc. and investment bank, KBW, Inc. The largest detractor in the short portfolio was Prosperity Bancshares, Inc., which continued to demonstrate strong fundamentals. We maintained the position as our estimate of

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 *without sales charges*						
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 *includes sales charges*						
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%

intrinsic value remains well below the current market price.

During the quarter, we added several new long positions including Bank of America Corp., First of Long Island Corp., and MVC Capital, Inc. Additionally, we initiated short positions in M&T Bank Corp. and Hancock Holding Co., as their market prices are above our estimates of intrinsic value. In addition to American Express, we also eliminated long positions in Discover Financial Services, and Paychex, Inc., as their prices also increased to our fair value estimates.

Overall, the Fund remained very net long as we continue to expect much higher returns on the long side given our typical long-term, normalized perspective.

Mentioned Securities and Respective Weights as of December 31, 2009

American Express Co.	–	Huntington Bancshares, Inc.	1.4%	Principal Financial Group, Inc.	–
Assured Guaranty Ltd.	4.3%	KBW, Inc.	(0.7%)	PrivateBancorp, Inc.	–
Bank of America Corp.	3.0%	M&T Bank Corp.	(1.1%)	Prosperity Bancshares, Inc.	(1.7%)
City National Corp.	1.0%	MVC Capital, Inc.	1.0%	Synovus Financial Corp.	0.6%
Discover Financial Services	–	Old Republic International Corp.	3.3%	Wells Fargo Corp.	7.1%
First of Long Island Corp.	1.1%	Paychex, Inc.	–	WesBanco, Inc.	(0.8%)
Hancock Holding Co.	(1.1%)	PNC Financial Services Group, Inc.	3.2%		

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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. Unlike mutual funds, the index does not incur expenses. If expenses were deducted, the actual returns of this index would be lower.

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Strategic Income Fund

DIAMOND HILL funds

Portfolio Management

Bill Zox, CFA
Manager

Chris Bingaman, CFA
Assistant Manager

Bill Dierker, CFA
Assistant Manager

The Fund generated a 3.68% total return (Class A without sales charge) during the fourth quarter, outperforming the Merrill Lynch US Corporate, Government and Mortgage Index. The Index return was 0.03%. For the year, the Fund generated a 32.12% total return compared to a 5.24% total return for the Index. For the trailing five-year period, the Fund generated a total return of 3.90% per year compared to 5.08% per year for the Index and 0.81% per year for US stocks, as measured by the Russell 3000 Index.

While credit sensitive sectors – such as corporate bonds and preferred securities – that are the focus of the Fund continued to perform well in the fourth quarter, US Treasury securities came under pressure. During the quarter, the 10-year Treasury yield increased 53 basis points from 3.31% to 3.84%, while the 2-year Treasury yield increased 19 basis points from 0.95% to 1.14%. In contrast, the option-adjusted spread of the Merrill Lynch U.S. Corporates, BBB Rated Index, which began the year at 784 basis points, declined from 306 basis points to 248 basis points during the fourth quarter. This spread was under 150 basis points from the fourth quarter of 2003 until the third quarter of 2007.

As we have noted throughout the year, corporate credit quality has improved dramatically, but much of that improvement is now reflected in more normal credit spreads. Corporate bonds and preferred securities still seem attractive relative to US government bonds, agency bonds, and agency mortgage-backed securities. We continue to believe, however, that it is increasingly important to monitor interest rate risk. With the declining impact of fiscal stimulus, as well as the potential end to quantitative easing and the near-zero Federal Funds rate ahead, we expect higher levels of volatility as the year progresses.

Over the last several years, the Fund's asset allocation has

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 *without sales charges*						
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 US Corporate, Government, & Mortgage Index	0.03%	5.24%	6.19%	5.08%	4.89%	—
PERFORMANCE AT POP *includes sales charges*						
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%

Strategic Income Fund *(cont'd)*

DIAMOND HILL® funds

evolved. In our current view, the Fund's year-end allocations to investment grade corporate bonds (62% of net assets), non-investment grade corporate bonds (25% of net assets), preferred securities (6% of net assets), and cash (7% of net assets) are close to baseline allocations. (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.

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 opinion, 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. 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.

The portfolio holdings are subject to change. Performance is not guaranteed. ***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. 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 Funds' 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. The Russell 3000 is a widely recognized unmanaged market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. The Russell 3000 does not take into account the deduction of expenses associated with a mutual fund, such as investment management and accounting fees. The Merrill Lynch US Corporate BBB Rated Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market by US and non-US corporations including all securities rated BBB1 through BBB3 with qualifying securities having at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of $250 million.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.

Performance returns assume reinvestment of all distributions. Average annual total returns illustrate the annual compounded returns that would have produced the cumulative total return if the Fund's performance had remained constant throughout the period indicated. Returns for the periods less than one year are not annualized. The total return figures for the Funds do not reflect the applicable sales charge for each class. 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. The investment return and net asset value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than the original purchase price. 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.

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.

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.

Performance Update

	Ticker Symbol	CUSIP Number	Overall Morningstar Rating™ *Class A with Load/ Class A Load-Waived[4] # funds in category*	Period & Average Annual Total Returns as of December 31, 2009: Fourth Quarter	One Year	Three Years	Five Years	Ten Years or Life of Fund†	Annualized Standard Deviation[5]	FEES & EXPENSES: Maximum Front-End Sales Charge	Contingent Deferred Sales Charge	Management Fee	Distribution Fee (12b-1)	Other Expenses	Total Expense Ratio	CLASSIFICATIONS: Lipper	Morningstar
SMALL CAP[1] (Inception Date 12/29/00)																	
Class A	DHSCX	25264S304	★★★★ / ★★★★	5.03%	28.92%	-2.81%	2.10%	10.61%	18.75%	5.00%	None	0.80%	0.25%	0.36%	1.41%	Small-Cap Core	Small-Cap Value
Class C	DHSMX	25264K103	310 funds	4.85%	27.99%	-3.54%	1.33%	9.78%	18.74%	None	1.00%	0.80%	1.00%	0.36%	2.16%		
Class I	DHSIX	25264S858	*Weighted average of 3- and 5-year risk-adjusted returns.*	5.16%	29.43%	-2.43%	2.48%	10.84%	18.77%	None	None	0.80%	None	0.22%	1.02%		
Benchmark	Russell 2000 Index			3.87%	27.17%	-6.07%	0.51%	4.26%	21.44%								
SMALL-MID CAP[1] (Inception Date 12/30/05)																	
Class A	DHMAX	25264S817	★★★★ / ★★★★	6.46%	40.77%	-0.80%	—	1.76%	22.90%	5.00%	None	0.75%	0.25%	0.36%	1.36%	Mid-Cap Core	Mid-Cap Value
Class C	DHMCX	25264S791	356 funds	6.27%	39.86%	-1.51%	—	1.04%	22.88%	None	1.00%	0.75%	1.00%	0.36%	2.11%		
Class I	DHMIX	25264S783	*Based on 3 year risk-adjusted returns.*	6.53%	41.36%	-0.39%	—	2.15%	22.91%	None	None	0.75%	None	0.22%	0.97%		
Benchmark	Russell 2500 Index			5.08%	34.39%	-4.86%	—	0.01%	22.14%								
LARGE CAP (Inception Date 6/29/01)																	
Class A	DHLAX	25264S502	★★★★ / ★★★★★	7.43%	30.21%	-3.27%	3.89%	5.23%	16.42%	5.00%	None	0.60%	0.25%	0.35%	1.20%	Large-Cap Core	Large-Cap Value
Class C	DHLCX	25264S601	1,104 funds	7.24%	29.34%	-3.99%	3.09%	4.41%	16.42%	None	1.00%	0.60%	1.00%	0.35%	1.95%		
Class I	DHLRX	25264S841	*Weighted average of 3- and 5-year risk-adjusted returns.*	7.54%	30.71%	-2.89%	4.29%	5.47%	16.43%	None	None	0.60%	None	0.21%	0.81%		
Benchmark	Russell 1000 Index			6.07%	28.43%	-5.36%	0.79%	1.24%	16.38%								
SELECT (Inception Date 12/30/05)																	
Class A	DHTAX	25264S775	★★★★ / ★★★★★	8.54%	32.26%	-2.03%	—	1.68%	18.12%	5.00%	None	0.70%	0.25%	0.36%	1.31%	Multi-Cap Value	Large-Cap Value
Class C	DHTCX	25264S767	1,104 funds	8.36%	31.86%	-2.78%	—	0.97%	18.05%	None	1.00%	0.70%	1.00%	0.36%	2.06%		
Class I	DHLTX	25264S759	*Based on 3 year risk-adjusted returns.*	8.67%	33.63%	-1.63%	—	2.08%	18.04%	None	None	0.70%	None	0.22%	0.92%		
Benchmark	Russell 3000 Index			5.90%	28.34%	-5.42%	—	-0.53%	18.06%								
LONG-SHORT[2] (Inception Date 6/30/00)																	
Class A	DIAMX	25264S403	★★★ / ★★★★	6.12%	17.93%	-2.43%	5.69%	6.63%	12.27%	5.00%	None	0.90%	0.25%	0.53%	1.68%	Long-Short	Long-Short
Class C	DHFCX	25264E107	118 funds	5.86%	17.02%	-3.18%	4.89%	5.82%	12.26%	None	1.00%	0.90%	1.00%	0.53%	2.43%		
Class I	DHLSX	25264S833	*Weighted average of 3- and 5-year risk-adjusted returns.*	6.21%	18.39%	-2.05%	6.11%	6.86%	12.28%	None	None	0.90%	None	0.39%	1.29%		
Benchmarks	Russell 1000 Index			6.07%	28.43%	-5.36%	0.79%	-0.60%	16.39%								
	50%Russell 1000 Index / 50% Citi 3 Month T-Bill			3.06%	14.14%	-1.11%	2.18%	1.39%	8.21%								
FINANCIAL LONG-SHORT[2] (Inception Date 8/1/97)																	
Class A	BANCX	25264S106	★★★ / ★★★★	0.35%	24.73%	-17.12%	-7.86%	5.54%	25.91%	5.00%	None	1.00%	0.25%	0.64%	1.89%	Financial Services	Specialty-Financial
Class C	BSGCX	25264S205	108 funds	0.13%	23.81%	-17.79%	-8.59%	4.81%	25.93%	None	1.00%	1.00%	1.00%	0.64%	2.64%		
Class I	DHFSX	25264S825	*Weighted average of 3-, 5-, and 10-year risk-adjusted returns.*	0.51%	25.31%	-16.75%	-7.61%	5.68%	25.92%	None	None	1.00%	None	0.50%	1.50%		
Benchmark	S&P 1500 SuperComposite Financials Index			-2.18%	15.46%	-23.22%	-10.55%	-2.04%	27.74%								
STRATEGIC INCOME[3] (Inception Date 9/30/02)																	
Class A	DSIAX	25264S882	★★ / ★★★	3.68%	32.13%	2.35%	3.90%	7.07%	8.96%	3.50%	None	0.50%	0.25%	0.35%	1.10%	Flexible Income	Multi-sector Bond
Class C	DSICX	25264S874	175 funds	3.60%	31.34%	1.62%	3.13%	6.36%	8.97%	None	1.00%	0.50%	1.00%	0.35%	1.85%		
Class I	DHSTX	25264S866	*Weighted average of 3- and 5-year risk-adjusted returns.*	3.78%	32.69%	2.75%	4.30%	7.35%	8.96%	None	None	0.50%	None	0.21%	0.71%		
Benchmark	Merrill Lynch US Corporate, Government & Mortgage Index			0.03%	5.24%	6.19%	5.08%	4.89%	3.87%								

† For Funds with a performance record ten (10) years or greater, the performance number represents "Ten Years"; otherwise, for Funds with a performance record less than ten (10) years, the performance number represents "Life of Fund." Refer to performance disclosure information on page 19.

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Morningstar calculates a Morningstar Rating™ for each fund with at least a 3-year history. The rating is based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars; the next 22.5% receive 4 stars; the next 35% receive 3 stars; the next 22.5% receive 2 stars; the bottom 10% receive 1 star. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Ratings. The Morningstar Rating is for the A share class only; other classes may have different performance characteristics. These ratings may change monthly. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Small Cap Fund The Overall Morningstar Rating™ is based on 310 small value funds as of 12/31/09. The Fund's Class A with Load / Class A Load-Waived ratings were 4 / 4 stars among 310 and 4 / 4 stars among 245 domestic small value funds for the 3- and 5-year periods ended 12/31/09, respectively.

Small-Mid Cap Fund The Overall Morningstar Rating™ is based on 356 mid value funds as of 12/31/09. The Fund's Class A with Load / Class A Load-Waived ratings were 4 / 4 stars among 356 for the 3 year period ended 12/31/09.

Large Cap Fund The Overall Morningstar Rating™ is based on 1,104 large value funds as of 12/31/09. The Fund's Class A with Load / Class A Load-Waived ratings were 4 / 4 stars among 1,104 and 4 / 5 stars among 912 domestic large value funds for the 3- and 5-year periods ended 12/31/09, respectively.

Select Fund The Overall Morningstar Rating™ is based on 1,104 large value funds as of 12/31/09. The Fund's Class A with Load / Class A Load-Waived ratings were 4 / 5 stars among 1,104 for the 3 year period ended 12/31/09.

Long-Short Fund The Overall Morningstar Rating™ is based on 118 long-short funds as of 12/31/09. The Fund's Class A with Load / Class A Load-Waived ratings were 2 / 3 stars among 118 and 3 / 4 stars among 65 long-short funds for the 3- and 5-year periods ended 12/31/09, respectively.

Financial Long-Short Fund The Overall Morningstar Rating™ is based on 108 specialty-financial funds as of 12/31/09. The Fund's Class A with Load / Class A Load-Waived ratings were 2 / 3 stars among 108, 2 / 3 stars among 101, and 3 / 4 stars among 64 specialty-financial funds for the 3-, 5-, and 10-year periods ended 12/31/09, respectively.

Strategic Income Fund The Overall Morningstar Rating™ is based on 175 multi-sector bond funds as of 12/31/09. The Fund's Class A with Load / Class A Load-Waived ratings were 2 / 2 stars among 175 and 2 / 3 stars among 149 multi-sector bond funds for the 3- and 5-year periods ended 12/31/09, respectively.

[1] There are special risks associated with small capitalization issues such as market illiquidity and greater market volatility than large capitalization issues.

[2] The Long-Short Fund and the Financial Long-Short Fund use short selling which incurs significant additional risk. Theoretically, stocks sold short have the risk of unlimited losses. The Total Expense Ratio includes dividend expense relating to short sales. If dividend expenses relating to short sales were excluded, the Total Expense Ratio for the Long-Short Fund would have been 1.51% for Class A, 2.26% for Class C, and 1.12% for Class I and 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.

[3] 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.

[4] Ratings for Class A Load-Waived shares should only be considered by investors who are not subject to a front-end sales charge.

[5] Standard deviation measures the variability of Fund and benchmark returns relative to their respective average monthly returns for the current trailing 5-year period, except Small-Mid Cap Fund and Select Fund where standard deviation is calculated since the inception of each Fund. Returns used for the calculation of standard deviation do not reflect sales charges.

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Investment Adviser

Diamond Hill Capital Management, Inc.

Distributor

BHIL Distributors, Inc. (Member FINRA),
an affiliate of the Diamond Hill Funds

For additional information, call:

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Please refer to page 18 for standardized performance.

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