

Small Cap Fund Commentary



Portfolio Management



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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-Aventis¹ 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 Hotels¹.

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 <i>without sales charges</i>						
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 <i>includes sales charges</i>						
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%



Small Cap Fund Commentary (cont'd)



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.

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. **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.

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.