



# Large Cap Fund Commentary



## Portfolio Management



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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

	Fourth Quarter	One Year	Three Years	Five Years	Since Inception (6/29/01)	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>						
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%
<b>BENCHMARK</b>						
Russell 1000 Index	6.07%	28.43%	-5.36%	0.79%	1.24%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>						
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%



# Large Cap Fund Commentary (cont'd)



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%		

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](http://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](http://www.diamond-hill.com).***

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. 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](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.