

Select Fund Commentary



Portfolio Management



Bill Dierker, CFA
Manager



Chuck Bath, CFA
Assistant Manager



Chris Welch, CFA
Assistant Manager

The Fund declined 11.10% (Class A, without sales charge) in the second quarter, compared with an 11.32% decline in the Russell 3000 Index.

During the quarter, no sectors provided positive contribution to return with our holdings in the health care, financials, and energy sectors providing the largest negative contribution to return.

In the health care sector, our positions in Medtronic, Inc. and Baxter International, Inc. were the largest negative contributors to return. Medtronic declined during the quarter due to concerns about their 2011 earnings guidance, currency headwinds, and what appears to be a weaker economic environment. We believe the company has a strong new product pipeline and continue to think that the stock is undervalued. Baxter declined during the quarter after materially revising their earnings guidance downward due to a market share loss in their plasma business and a government recall of their Colleague infusion pumps. We feel that the stock market has adequately discounted shares of Baxter to reflect these issues.

In the financial sector, financial guaranty insurance company, Assured Guaranty Ltd., provided the largest negative contribution to performance. Assured Guaranty reported weaker than anticipated earnings in May, reflecting the addition of reserves to cover insured residential mortgage backed securities (RMBS) underwritten between 2005 and 2008. While disappointed by the lower than expected first quarter earnings, we do not believe the first quarter results necessarily

imply diminished normalized earnings. We expect reserving for RMBS will continue to be uneven. In addition to the weaker than expected earnings, elevated concerns about the growing level of default risk in the municipal debt markets has created substantial headline risk which may constrain valuation levels in the near-term.

In the energy sector, oil and gas exploration company, Anadarko Petroleum Corp., provided the largest negative contribution to return during the quarter due to its 25% non-operating interest in the oil well at the Deepwater Horizon site. The oil drilling rig that exploded and sank in April 2010, resulted in the largest offshore oil spill in United States history. Anadarko Petroleum shares have discounted a substantial liability resulting from the Deepwater Horizon accident in addition to the uncertainty regarding future deepwater development. Our position in oil and gas exploration company, Cimarex Energy Co., and oil and gas exploration and equipment provider Exterran Holdings, Inc. provided positive returns.

During the quarter, we initiated positions in Air Products & Chemicals Inc., 3M Co., and Arch Capital Group Ltd. Air Products was added during the quarter as shares became depressed due to concerns surrounding its potential acquisition of gas distributor Airgas, Inc. 3M was added as the market gave us an opportunity to buy this high quality, well run, very profitable company at a reasonably attractive price. The high research and development content of 3M's products, as well as its conservative management, strong cash flow generation, and clean balance sheet make it an attractive addition to our portfolios. Finally, we initiated a position in property and casualty insurer, Arch Capital, which has been willing to shrink its top-line significantly in the face of declining prices, choosing to let excess capital build and to return capital to shareholders through share repurchases below book value. We believe this is a sign of good capital allocation in a competitive and cyclical industry. Arch Capital has a very conservative balance sheet, with no legacy reserves from previous soft markets, and an incentive compensation system geared towards long-term

Performance Update

Period & Average Annual Total Returns as of June 30, 2010

	Second Quarter	One Year	Three Years	Five Years	Since Inception (12/30/05)	Total Expense Ratio
PERFORMANCE AT NAV <i>without sales charges</i>						
Class A Shares	-11.10%	16.67%	-6.56%	—	-0.29%	1.27%
Class C Shares	-11.33%	15.61%	-7.28%	—	-1.00%	2.02%
Class I Shares	-10.99%	16.97%	-6.19%	—	0.09%	0.91%
BENCHMARK						
Russell 3000 Index	-11.32%	15.72%	-9.47%	—	-1.84%	—
PERFORMANCE AT POP <i>includes sales charges</i>						
Class A Shares	-15.52%	10.77%	-8.15%	—	-1.42%	1.27%
Class C Shares	-12.21%	14.61%	-7.28%	—	-1.00%	2.02%



Select Fund Commentary (cont'd)



profitability rather than near-term growth. We believe Arch Capital is managing the current environment effectively and will be able to capitalize whenever pricing improves.

Coming into the quarter, we were concerned about investor expectations for the economy and earnings estimates. Based upon the stocks that were performing well in the first quarter and the initial weeks of the second quarter, investors were expecting a robust improvement in

the domestic economy. However, in late April, investors started to discount these assumptions, and the market corrected by over 15%. This has restored attractive values across many sectors. We continue to focus on individual companies' long-term fundamentals. The recent correction has resulted in companies with more attractive margins of safety versus recent periods.

We did not eliminate any positions during the quarter.

Mentioned Securities and Respective Weights as of June 30, 2010

3M Co.	2.1%	Baxter International, Inc.	2.5%
Air Products & Chemicals, Inc.	2.4%	Cimarex Energy Co.	2.4%
Anadarko Petroleum Corp.	2.1%	Exterran Holdings, Inc.	1.7%
Arch Capital Group Ltd.	1.5%	Medtronic, Inc.	2.9%
Assured Guaranty Ltd.	2.0%		

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 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 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. 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.

The portfolio holdings are subject to change without notice. Performance is not guaranteed. Performance returns assume reinvestment of all distributions. 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. 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 fees applicable to Class C shares, which includes a 1.00% 12b-1 fee. In such instances, and without such waiver of fees, the total returns would have been lower.

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.