



Long-Short Fund Commentary



Portfolio Management



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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 <i>without sales charges</i>						
Class A Shares	6.12%	17.93%	-2.43%	5.69%	6.63%	1.68%
Class C Shares	5.86%	17.02%	-3.18%	4.89%	5.82%	2.43%
Class I Shares	6.21%	18.39%	-2.05%	6.11%	6.86%	1.29%
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 <i>includes sales charges</i>						
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 Commentary (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.

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 Fund uses short selling which incurs significant additional risk. Theoretically, stocks sold short have unlimited risk. 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 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.

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.