

Long-Short Fund Commentary

Portfolio Management



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The Fund declined 8.56% (Class A, without sales charge) in the second quarter, compared with an 11.44% decline in the long-only Russell 1000 Index. In the long portion of the portfolio, no sectors provided positive contribution to return, while our positions in the energy, health care, and financial sectors provided the largest negative contribution to return.

In the energy sector, oil and gas exploration company, Anadarko Petroleum Corp., was impacted by the uncertainty regarding the future of Gulf of Mexico exploration. Our position in Anadarko Petroleum 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. provided positive returns. Cimarex's management again increased production guidance due to better than expected results in the core areas of its businesses. The shares also may have benefited from the relative attractiveness of onshore exploration and production assets versus offshore assets.

In the health care sector, our positions in Medtronic, Inc. and Baxter International, Inc. were the largest negative contributors to return. Medtronic depreciated during the quarter due to concerns about their 2011 earnings guidance, currency headwinds, and what appears to be a weak economic environment. We believe the company has a strong new product pipeline and continue to think that the stock is undervalued. Baxter depreciated 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, Wells Fargo & Co. and financial guaranty insurance company, Assured Guaranty Ltd. provided the largest negative contribution to performance. Wells Fargo depreciated during the quarter due to concerns over European sovereign risks and pending regulatory reform. 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 short portfolio, all sectors except telecommunication services and information technology provided positive contribution to return. Specifically, our consumer discretionary short positions in for-profit education company, Career Education Corp, and cruise line operator, Royal Caribbean Cruises Ltd., were the largest contributors to performance. Other notable contributors to performance included chemical company, Dow Chemical Co., and drug wholesaler, Omnicare, Inc. Our short positions in the telecommunication services sector provided the largest negative contribution to return within the short portfolio. In the information technology sector, Salesforce.com, Inc. continued favorable revenue growth trends, and excitement about a new collaboration software product drove the stock up, despite profit margin pressures. Similarly, Akamai Technologies, Inc., reported good earnings and better than expected margins.

During the quarter, we initiated long positions in Air Products & Chemicals, Inc.; 3M Co.; Exxon Mobil Corp; and Quest Diagnostics, Inc. Air Products was added during the quarter as shares became depressed due to concerns surrounding its potential acquisition of

Performance Update

Period & Average Annual Total

Returns as of June 30, 2010

	Second Quarter	One Year	Three Years	Five Years	Ten Years	Total Expense Ratio
PERFORMANCE AT NAV <i>without sales charges</i>						
Class A Shares	-8.56%	3.65%	-5.58%	2.13%	5.23%	1.84% ¹
Class C Shares	-8.74%	2.87%	-6.31%	1.36%	4.42%	2.59% ¹
Class I Shares	-8.43%	4.13%	-5.21%	2.54%	5.46%	1.48% ¹
BENCHMARK						
Russell 1000 Index	-11.44%	15.24%	-9.54%	-0.56%	-1.22%	—
50% Russell 1000 Index / 50% BofA ML US T-Bill 0-3 Month Index	-5.75%	7.80%	-3.66%	1.41%	1.01%	—
PERFORMANCE AT POP <i>includes sales charges</i>						
Class A Shares	-13.13%	-1.54%	-7.19%	1.09%	4.69%	1.84%
Class C Shares	-9.65%	1.87%	-6.31%	1.36%	4.42%	2.59%



Long-Short Fund Commentary (cont'd)



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. We eliminated our position in XTO Energy, Inc. and used the proceeds to initiate a position in its acquirer, Exxon Mobil.

Finally, we eliminated our long position in Transocean Ltd. Following the Deepwater Horizon accident, we believed that the long-term risks

to Transocean's business and potential liabilities could be material, which changed our assumptions and lowered our estimate of intrinsic value.

There were no new short positions added this quarter; however, numerous short positions were covered as their prices reached our estimate of intrinsic value.

Mentioned Securities and Respective Weights as of June 30, 2010

3M Co.	2.1%	Career Education Corp.	(1.8)%	Quest Diagnostics, Inc.	1.3%
Air Products & Chemicals, Inc.	1.9%	Cimarex Energy Co.	1.2%	Royal Caribbean Cruises Ltd.	(1.3)%
Akamai Technologies, Inc.	(1.4)%	Dow Chemical Co.	(1.7)%	Salesforce.com, Inc.	(1.5)%
Anadarko Petroleum Corp.	2.4%	Exxon Mobil Corp.	2.0%	Transocean Ltd.	~
Assured Guaranty Ltd.	1.2%	Medtronic, Inc.	2.9%	Wells Fargo & Co.	2.0%
Baxter International, Inc.	1.3%	Omnicare, Inc.	(1.6)%	XTO Energy, Inc.	~

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

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 Bank of America Merrill Lynch Treasury Bill 0-3 Month Index, which tracks the performance of US dollar-denominated Treasury Bills publicly issued in the US domestic market with a remaining term to final maturity of less than 3 months. 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 for 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.

¹Includes 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 1.47% for Class A, 2.22% for Class C, and 1.11% for Class I.