

Financial Long-Short Fund Commentary



Portfolio Management



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The Fund increased 0.35% (Class A, without sales charge) in the fourth quarter, compared to the S&P 1500 SuperComposite Financials Index, which declined 2.18%.

Unlike the last two quarters, as a whole, the long portfolio provided negative contribution to performance, as the rally in the financial sector did not continue into the fourth quarter. However, long positions in Assured Guaranty Ltd., American Express Co., PNC Financial Services Group, Inc., and City National Corp. each provided substantial positive contributions to performance. During the fourth quarter, Assured Guaranty raised equity to solidify its financial strength ratings at Moody's. With this capital raise, which greatly mitigated ratings uncertainty, the company has improved its already dominant competitive position in the bond insurance industry. Additionally, Assured Guaranty's management indicated that substantial earnings power is expected over the next few years as a result of the FSA acquisition it completed in July. American Express's aggressive actions during the beginning of this credit cycle continued to pay off. During the quarter, American Express indicated that its net charge offs had fallen dramatically and that its card members began to increase spending on its network. Due to these improving fundamentals, the stock increased nicely during the quarter and was eliminated, as it reached our estimate of intrinsic value. PNC's stock reacted positively to the company's third quarter earnings and management's commentary on margins, expenses and continued progress with its integration of last year's National City Corp. acquisition. City National also appreciated during the quarter, as the company an-

nounced an FDIC assisted transaction to acquire the assets and deposits of Imperial Capital Bancorp. City National continues to demonstrate strong relative credit metrics and maintains a very attractive, low-cost deposit mix.

Additionally, our preferred holdings generally performed well as many banks continued to raise capital. In particular, preferred stock in both Bank of America Corp. and Wells Fargo Corp. subsidiaries reacted well to both of those companies issuing new common equity to repay their TARP obligations. The Fund also holds the common stock of Bank of America and Wells Fargo, which detracted from quarterly performance as the amount of the common equity capital raised was generally greater than many expected.

Old Republic International Corp. was another long position that detracted from performance. Even though Old Republic's earnings have been better than expectations, its mortgage insurance segment continues to negatively impact earnings. With a tangible book value over \$16 a share, we continue to find this position trading at a discount to our estimate of intrinsic value. Also down during the quarter were regional banks, Huntington Bancshares, Inc. and Synovus Financial Corp., which continue to struggle with credit issues primarily due to real estate exposure.

Due to the decline in the financial markets, the short portfolio provided positive contribution to performance. During the quarter, both PrivateBancorp, Inc. and Principal Financial Group, Inc. struggled with fundamental challenges, which caused their stocks to decline and allowed us to cover the positions when they reached our estimate of intrinsic value. Other short positions that declined in value during the quarter included regional bank, WesBanco, Inc. and investment bank, KBW, Inc. The largest detractor in the short portfolio was Prosperity Bancshares, Inc., which continued to demonstrate strong fundamentals. We maintained the position as our estimate of

Performance Update

Period & Average Annual Total Returns as of December 31, 2009

	Fourth Quarter	One Year	Three Years	Five Years	Ten Years	Total Expense Ratio
PERFORMANCE AT NAV <i>without sales charges</i>						
Class A Shares	0.35%	24.73%	-17.12%	-7.86%	5.54%	1.89%
Class C Shares	0.13%	23.81%	-17.79%	-8.59%	4.81%	2.64%
Class I Shares	0.51%	25.31%	-16.75%	-7.61%	5.68%	1.50%
BENCHMARK						
S&P 1500 SuperComposite Financials Index	-2.18%	15.46%	-23.22%	-10.55%	-2.04%	—
PERFORMANCE AT POP <i>includes sales charges</i>						
Class A Shares	-4.63%	18.44%	-18.53%	-8.81%	5.00%	1.89%
Class C Shares	-0.86%	22.81%	-17.79%	-8.59%	4.81%	2.64%



Financial Long-Short Fund Commentary (cont'd) DIAMOND HILL® funds

intrinsic value remains well below the current market price.

During the quarter, we added several new long positions including Bank of America Corp., First of Long Island Corp., and MVC Capital, Inc. Additionally, we initiated short positions in M&T Bank Corp. and Hancock Holding Co., as their market prices are above our estimates of intrinsic value. In addition

to American Express, we also eliminated long positions in Discover Financial Services, and Paychex, Inc., as their prices also increased to our fair value estimates.

Overall, the Fund remained very net long as we continue to expect much higher returns on the long side given our typical long-term, normalized perspective.

Mentioned Securities and Respective Weights as of December 31, 2009

American Express Co.	–	Huntington Bancshares, Inc.	1.4%	Principal Financial Group, Inc.	–
Assured Guaranty Ltd.	4.3%	KBW, Inc.	(0.7%)	PrivateBancorp, Inc.	–
Bank of America Corp.	3.0%	M&T Bank Corp.	(1.1%)	Prosperity Bancshares, Inc.	(1.7%)
City National Corp.	1.0%	MVC Capital, Inc.	1.0%	Synovus Financial Corp.	0.6%
Discover Financial Services	–	Old Republic International Corp.	3.3%	Wells Fargo Corp.	7.1%
First of Long Island Corp.	1.1%	Paychex, Inc.	–	WesBanco, Inc.	(0.8%)
Hancock Holding Co.	(1.1%)	PNC Financial Services Group, Inc.	3.2%		

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 S&P 1500 SuperComposite Financials Index is a market capitalization-weighted index which is comprised of companies that represent the Financial Services Sector weighting within the S&P 500 SuperComposite. The S&P 1500 SuperComposite is a broad-based market capitalization-weighted index of 1500 U.S. companies that is comprised of the S&P 400, S&P 500 and S&P 600 Indexes. 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.