



Financial Long-Short Fund



Portfolio Management



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The Fund declined 10.52% (Class A, without sales charge) in the second quarter, compared with a 12.65% decline in the S&P 1500 SuperComposite Financials Index.

The second quarter was a difficult period for the financial sector as concerns over the European debt crises as well as financial regulatory reform weighed heavily on the equity markets. The financial sector in general and the banking industry in particular, were under steady pressure after peaking in April. First quarter results were generally better than expected but not enough to offset myriad macro concerns as the sector underperformed the broader indices. On a positive note, most areas of the financial sector continue to mend as underlying results once again demonstrated improving balance sheet strength and liquidity.

During the quarter, long positions in Horace Mann Educators Corp., First of Long Island Corp., and Assurant, Inc. were the largest positive contributors. Horace Mann continues to make progress in raising prices on its homeowners' product and is successfully implementing its new distribution strategy, which has led to improved growth prospects. Assurant reported better than expected first quarter earnings aided by a larger than anticipated stock buyback. Assurant's health insurance segment returned to profitability faster than anticipated, its specialty property insurance segment continued to report excellent results, and its management reiterated that it will likely use its large and growing pool of excess capital to buy back more shares at attractive discounts to both book value and our estimate of intrinsic value.

Bottom performers in the long portfolio included Assured Guaranty Ltd., Wells Fargo & Co., and JPMorgan Chase & Co. 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. Additionally, JPMorgan Chase & Co. and Wells Fargo & Co. suffered from concerns over European sovereign risks and pending regulatory reform in the United States causing the positions to depreciate during the quarter.

In the short portfolio, many of these same concerns aided our positions in KBW, Inc. and Prosperity Bancshares, Inc., whose shares depreciated during the quarter. There were no material detractors from performance in the short portfolio.

During the quarter, we initiated meaningful long positions in XL Capital Ltd. and Popular, Inc. We have owned XL Capital in the past and have been closely monitoring the company. As the earnings steadily improved and the company made meaningful progress in lowering risk in its investment portfolio, the recent decline in its stock price allowed us to re-establish a long position at an attractive discount to our estimate of intrinsic value. Popular, Inc., a bank in Puerto Rico, was added during the quarter as its price decline provided an attractive discount to our estimate of intrinsic value.

We eliminated long positions in City National Corp. and Comerica, Inc. during the first few weeks of April as they appreciated to our estimate of intrinsic value after both companies reported improving credit quality during the first quarter. In addition to the eliminations of Comerica and City National, we divested a bond holding in First Tennessee Bank, as well as a trust preferred position in Regions

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	-10.52%	25.57%	-17.07%	-7.21%	7.31%	1.76% ¹
Class C Shares	-10.65%	24.65%	-17.74%	-7.94%	6.57%	2.51% ¹
Class I Shares	-10.40%	26.11%	-16.72%	-6.92%	7.48%	1.40% ¹
BENCHMARK						
S&P 1500 SuperComposite Financials Index	-12.65%	18.57%	-23.81%	-10.74%	-2.13%	—
PERFORMANCE AT POP <i>includes sales charges</i>						
Class A Shares	-14.99%	19.27%	-18.47%	-8.15%	6.76%	1.76%
Class C Shares	-11.54%	23.65%	-17.74%	-7.94%	6.57%	2.51%



Financial Long-Short Fund *(cont'd)*



Financing Trust III. Both securities were trading very close to par value.

In the short portfolio, no meaningful short positions were added during the quarter. However, the weakness in the financial sector allowed us to cover our position in Prosperity Bancshares. In addition

to the weakness in the financial sector, Hancock Holding Co. suffered from concerns over the oil spill in the Gulf of Mexico and its impact on the economy in its gulf coast markets, which allowed us to cover the position as it reached our estimate of intrinsic value.

Mentioned Securities and Respective Weights as of June 30, 2010

Assurant, Inc.	3.8%	First Tennessee Bank	~	Popular, Inc.	1.6%
Assured Guaranty Ltd.	3.4%	Hancock Holding Co.	~	Prosperity Bancshares, Inc.	~
City National Corp.	~	Horace Mann Educators Corp.	1.4%	Regions Financing Trust III	~
Comerica, Inc.	~	JPMorgan Chase & Co.	6.5%	Wells Fargo & Co.	6.1%
First of Long Island Corp.	1.5%	KBW, Inc.	(0.4)%	XL Capital Ltd.	2.2%

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 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 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. 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 Fund 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 1.57% for Class A, 2.32% for Class C, and 1.21% for Class I.