



Strategic Income Fund Commentary



Portfolio Management



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The Fund generated a 1.24% total return (Class A, without sales charge) during the second quarter compared to a 3.52% total return for the Bank of America Merrill Lynch U.S. Corporate, Government and Mortgage Index. For the year-to-date period, the Fund generated a 6.94% total return compared to 5.30% for the Index. For the trailing five-year period, the Fund generated a total return of 4.72% per year compared to 5.62% per year for the Index and negative 0.44% per year for U.S. stocks, as measured by the Russell 3000 Index.

At the end of April, the 14-month rally in risk assets was interrupted as concerns grew over the sovereign debt crisis in Europe and a potential slowdown in China. The 10-year Treasury yield declined 90 basis points during the quarter from 3.83% to 2.93%, while the two-year Treasury yield declined 41 basis points from 1.02% to 0.61%. The option-adjusted spread of the Bank of America Merrill Lynch U.S. Corporates, BBB Rated Index increased from 205 basis points to 261 basis points. This spread was under 150 basis points from the fourth quarter of 2003 until the third quarter of 2007. The option-adjusted spread of the Bank of America Merrill Lynch, U.S. High Yield Master II Index increased from 584 basis points to 705 basis points. This spread was under 500 basis points from late-2003 until the fourth quarter of 2007.

Deleveraging continued to be the key theme during the second quarter, which we expect will be the case for many years to come. After fourteen months of rising asset prices, increasing liquidity, and declining volatility, the lessons of the crisis began to fade. However, when asset prices took a meaningful step backwards, financial institutions reduced risk and consumers retrenched. We expect that these periods of heightened volatility and reduced liquidity will occur more frequently until consumer and government balance sheets are well on the path to repair.

Coming into the quarter, we were considering a plan to begin to reduce the Fund's approximate 50% weighting in financials. We felt good about the credit quality of our financial bonds, but their yields were low after the full recovery from the historic lows of 2008. By swapping some of the financials for select high yield bonds, we believed we could increase yield, improve liquidity, and reduce duration (i.e., sensitivity to rising interest rates) at the expense of an acceptable reduction in the overall credit quality of the portfolio.

When liquidity was disrupted in early May, we accelerated the plan aggressively. By the end of the quarter, the financial weighting was below 25% and the cash position increased from 7.3% to 12.5%. Our objective with the elevated cash position is to be in a position to buy bonds at particularly attractive prices when traditional providers of liquidity withdraw from the market.

Performance Update

Period & Average Annual Total Returns as of June 30, 2010	Second Quarter	One Year	Three Years	Five Years	Since Inception (9/30/02)	Total Expense Ratio
PERFORMANCE AT NAV <i>without sales charges</i>						
Class A Shares	1.24%	23.33%	3.67%	4.72%	7.53%	1.05%
Class C Shares	1.06%	22.31%	2.90%	3.93%	6.80%	1.80%
Class I Shares	1.35%	23.84%	4.08%	5.14%	7.82%	0.69%
BENCHMARK						
BofA ML US Corporate, Government, & Mortgage Index	3.52%	9.08%	7.71%	5.62%	5.27%	—
PERFORMANCE AT POP <i>includes sales charges</i>						
Class A Shares	-2.27%	19.01%	2.44%	3.98%	7.04%	1.05%
Class C Shares	0.06%	21.31%	2.90%	3.93%	6.80%	1.80%



Strategic Income Fund Commentary (cont'd)



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 Bank of American Merrill Lynch US Corporate, Government, & Mortgage Index includes a mixture of government bonds, corporate bonds and mortgage pass through securities of investment grade quality, having a maturity greater than or equal to one year. The Bank of America Merrill Lynch US Corporate, Government, & Mortgage Index does not take into account the deduction of expenses associated with a mutual fund, such as investment management and accounting fees. 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. The Bank of America Merrill Lynch US Corporate BBB Rated Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market by US and non-US corporations including all securities rated BBB1 through BBB3 with qualifying securities having at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of \$250 million. The Bank of America Merrill Lynch U.S. High Yield Master II Index tracks the performance of below investment grade, but not in default, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P. One cannot invest directly in an index. Unlike mutual funds, these indices do not incur expenses. If expenses were deducted, the actual returns of these indices 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.