

# Diamond Hill Financial Trends Fund, Inc.



DIAMOND HILL<sup>®</sup>  
funds

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**Semi-Annual Report**

June 30, 2011

Invest With Us.

# Welcome

Dear Fellow Shareholders:

The domestic equity markets charged out of the gates early in 2011 but pulled back in May and June as numerous macro issues began to again weigh on risk markets around the globe. Still, most U.S. indices ended the first half up nicely with mid-cap equities leading the way. The financial sector clearly lagged the overall market as concerns over slowing economic growth, European debt, and regulatory changes persisted. The Diamond Hill Financial Trends Fund posted a negative 1.04% return, on a net asset value basis, while its primary benchmark, the S&P 1500 SuperComposite Financials Index, declined 2.20% for the same period.

The economic recovery, which strengthened during late 2010 and early 2011, began to soften during the spring as a mix of higher commodity costs, weakening home prices, and production disruptions due to the Japanese earthquake combined to take a toll on U.S. economic growth. Additionally, concerns once again surfaced over the outlook for European sovereign debt issues. Finally, financial regulatory reform continued with both global and domestic regulatory bodies making periodic comments on desired capital levels for systemically important financial institutions.

While the financial sector continues to deal with the regulatory aftermath of the crises, most key companies within the sector are now clearly demonstrating both improving levels of operating profitability and strengthening capital positions. Credit costs and securities impairments generally continue to move to more normal levels, while expense discipline has become an important focus for many companies.

Ongoing cyclical challenges in the wake of the credit crisis took a toll on the financial sector during the first half of 2011. However, we remain optimistic regarding the secular outlook for the sector in general and our holdings in particular. As a reminder, the Fund's managers maintain their focus on a long-term investment horizon, purchasing securities priced at a discount to their appraisal of intrinsic value, and most importantly placing shareholders' interests first. On behalf of your Board of Directors, I would like to once again assure you of our collective commitment to meeting our fiduciary duty to our fellow shareholders.

Sincerely,



Franklin C. Golden

Chairman of Diamond Hill Financial Trends Fund, Inc.

## TABLE OF CONTENTS

Your fund at a glance  
page 1

Portfolio Commentary  
page 2

Fund's Investments  
page 4

Financial Statements  
page 8

Notes to Financial  
Statements  
page 12

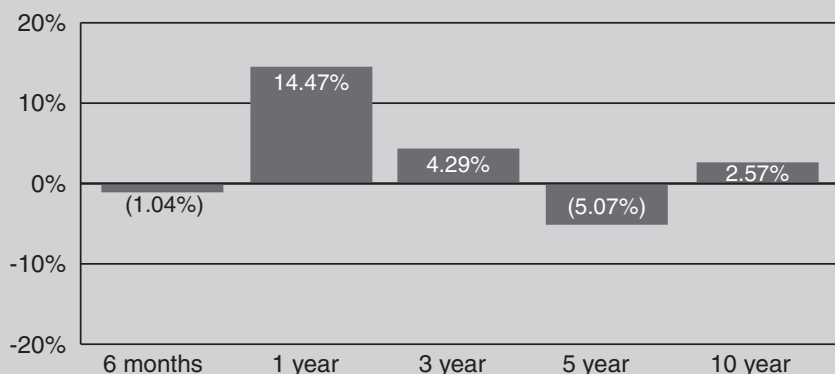
**The Fund seeks long-term capital appreciation by investing at least 80% of its assets in stocks of U.S. financial service companies of any size.**

## Over the last six months

- The Fund declined 1.04% on a net asset value basis, outperforming the S&P 1500 Super Composite Financials Index, which was down 2.20%.
- After a strong start, U.S. public equity markets sold off during the second quarter but did finish the period with reasonably strong annualized returns.
- Renewed fears over economic growth prospects, European sovereign debt issues, and new capital rules for strategically important financial institutions weighed on the financial sector.
- The fund's net long position increased during the period as opportunities on long side became abundant during the last two months of the period.

## Diamond Hill Financial Trends Fund, Inc.

Fund's average annual total returns for various periods ended June 30, 2011



The total returns for the Fund are at net asset value and include the reinvestment of all distributions. The performance data contained within this material represents past performance, which does not guarantee future results.

## Top 10 holding

Wells Fargo & Co.	7.3%	PNC Financial Services Group, Inc.	4.1%
JPMorgan Chase & Co.	6.7%	Old Republic International Corp.	4.0%
Assured Guaranty Ltd.	5.2%	Bank of New York Mellon Corp.	3.2%
U.S. Bancorp	4.6%	Hartford Financial Services Group, Inc.	2.8%
Prudential Financial, Inc.	4.1%	Assurant, Inc.	2.8%

As a percentage of net assets on June 30, 2011 and excludes any cash equivalents.

# Portfolio Commentary

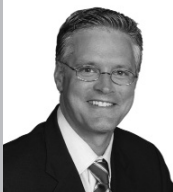
Thank you for your interest in the Diamond Hill Financial Trends Fund, Inc.

Much like last year, 2011 started off very strong and then weakened as we approached mid-year. Relative to the domestic equity markets, financial stocks clearly lagged. Through June 30, 2011, the Fund posted a negative 1.04% total return, on a net asset value basis, while its primary benchmark, the S&P 1500 SuperComposite Financials Index, declined 2.20% for the same period. We once again increased the portfolio's net long position as current stock valuations appeared to more than compensate for difficult near term fundamentals.

Our significant long positions in many of the large cap banks were the primary detractors from performance during the first half. Wells Fargo & Co., Bank of New York Mellon Corp., and Bank of America Corp. all struggled with sluggish core revenue trends, while Old Republic International Corp. and Assured Guaranty Ltd. continued to deal with residential mortgage exposures. Two notable contributors to the long portfolio return were Discover Financial Services and American Express Co. Both companies continued to see strong improvement in earnings trends due to very sharp declines in delinquencies and net credit losses.

The short portfolio was a modest positive contributor to the Fund's performance during the first half as many of our small cap commercial bank holdings continued to struggle with the difficult environment. We eliminated short positions in First Bancorp and Westamerica Bancorp as they reached our fair value targets, and we initiated a new position in Home Bancshares, Inc. Home Bancshares is an Arkansas based bank that has grown significantly through five FDIC-assisted acquisitions in Florida. We view the company as a reasonably high quality operator but also believe the stock's valuation more than reflects the company's strengths.

Within the long portfolio, new positions included ACE Ltd., CME Group, Inc., iStar Financial, Inc., and White Mountains Insurance Group Ltd. ACE is a global insurer with an excellent track record of growing earnings and book value per share. The company has achieved superior underwriting results over time, while building a global distribution platform that would be nearly impossible to replicate. ACE now receives over 15% of its revenues from the fast growing regions of Asia and Latin America, and revenue from these regions will increase with recent acquisitions in Hong Kong and Malaysia. We view the company's absolute valuation as attractive and believe the high quality returns and superior growth outlook deserve a larger premium relative to peers. CME Group is the combination of the Chicago Mercantile Exchange, Chicago Board of Trade, and New York Mercantile Exchange. It is one of the largest financial exchanges in the world facilitating futures and options trading based on interest rates, equity indexes, foreign exchange, energy, agricultural commodities, metals, and real estate. CME's business model is a high margin, volume-based business with significant barriers to entry. iStar Financial is a commercial mortgage REIT. We have been invested in various parts of the company's capital structure for several years. Most recently, we reduced our position in one of its preferred issues and began buying the common stock as the company was able to complete a necessary financing and extend its debt maturities. Both the credit profile of their borrowers and the performance of the underlying properties have improved dramatically in recent quarters. Finally, White Mountains Insurance owns commercial insurance and reinsurance businesses in the U.S. and Europe. Over the years they have been very astute managers of capital and as a result, have been able to compound



Christopher M. Bingaman



Austin Hawley



John Loesch

tangible book value at a superior rate. During the quarter, White Mountains reached an agreement to sell its direct-to-consumer auto insurance business, Esurance, to Allstate for what we perceived to be a very attractive price. When the deal closes, it will increase White Mountains' tangible book value by nearly 20% and leave the company with very substantial excess capital.

Notable eliminations included The Allstate Corp and MVC Capital. Allstate once again reported disappointing fundamentals. Consequently, we reduced our estimates of earnings power and intrinsic value. As mentioned above, the company also announced the acquisition of White Mountain's Esurance business. We were disappointed with the price Allstate paid for Esurance, and it forced us to reconsider the competitive environment in the personal lines insurance industry as well as the company's longer term positioning therein. MVC Capital was a small but nicely profitable investment which was sold as it approached our intrinsic value estimate.

As usual, the Fund remains relatively concentrated as we continue to hold between 40 and 50 stocks on the long side. While the portfolio remains very long-biased, we continue to believe the ability to short within the portfolio will provide important long-term benefits. As we often like to point out, our primary objective is not to use the short portfolio to mitigate volatility but as an opportunistic tactic to enhance performance over time.

As always, we would like to thank our shareholders for their continued support of the Fund.

Christopher M. Bingaman, CFA  
Portfolio Manager

Austin Hawley, CFA  
Assistant Portfolio Manager

John Loesch, CFA  
Assistant Portfolio Manager

# Diamond Hill Financial Trends Fund, Inc.

## Schedule of Investments

June 30, 2011 (Unaudited)

	Shares	Fair Value
<b>Preferred Stocks — 1.9%</b>		
<b>Banking Services — 1.2%</b>		
Citizens Funding Trust I, 7.50%*	25,940	\$ 538,255
<b>Reits &amp; Real Estate Management — 0.7%</b>		
iStar Financial, Inc., Series F, 7.80% <sup>o</sup>	15,875	313,849
<b>Total Preferred Stocks</b>		<b>\$ 852,104</b>
<b>Common Stocks — 87.2%</b>		
<b>Banking Services — 31.6%</b>		
BB&T Corp.	12,907	346,424
City National Corp. <sup>o</sup>	6,100	330,925
First California Financial Group, Inc.*	110,350	392,294
First Financial Holdings, Inc. <sup>o</sup>	57,338	514,322
First Niagara Financial Group, Inc.	45,325	598,290
First of Long Island Corp. <sup>o</sup>	27,056	754,592
Huntington Bancshares, Inc. <sup>o</sup>	121,010	793,826
National Penn Bancshares, Inc. <sup>o</sup>	85,930	681,425
NewBridge Bancorp*	47,512	217,605
PNC Financial Services Group, Inc.	30,725	1,831,517
Popular, Inc.*	305,125	842,145
Sterling Bancorp <sup>o</sup>	67,370	639,341
SunTrust Banks, Inc.	36,260	935,508
U.S. Bancorp	82,199	2,096,897
Wells Fargo & Co. <sup>s</sup>	118,090	3,313,605
		14,288,716
<b>Consumer Financial Services — 3.6%</b>		
American Express Co.	13,550	700,535
Discover Financial Services	34,315	917,926
		1,618,461
<b>Financial Services — 15.1%</b>		
Bank of America Corp.	60,215	659,957
Bank of New York Mellon Corp. <sup>s</sup>	57,008	1,460,545
CME Group, Inc.	2,870	836,863
JPMorgan Chase & Co. <sup>s</sup>	74,528	3,051,176
Morgan Stanley	25,670	590,667
State Street Corp.	4,724	213,005
		6,812,213

	Shares/ Par Value	Fair Value
<b>Insurance — 30.6%</b>		
ACE Ltd.	13,325	\$ 877,052
Alleghany Corp.*	672	223,850
Arch Capital Group Ltd.* <sup>o</sup>	9,920	316,646
Assurant, Inc.	34,575	1,254,035
Assured Guaranty Ltd.	144,301	2,353,549
Chubb Corp., The	5,570	348,738
Hartford Financial Services Group, Inc.	48,542	1,280,053
HCC Insurance Holdings, Inc. <sup>o</sup>	15,265	480,847
Horace Mann Educators Corp. <sup>o</sup>	43,927	685,700
Marsh & McLennan Cos., Inc.	10,450	325,935
Old Republic International Corp. <sup>o</sup>	155,440	1,826,420
Prudential Financial, Inc.	29,400	1,869,546
Travelers Cos., Inc., The <sup>s</sup>	11,005	642,472
White Mountains Insurance Group Ltd. <sup>o</sup>	780	327,725
XL Group plc.	46,475	1,021,521
		13,834,089
<b>IT Services — 1.4%</b>		
CoreLogic, Inc.* <sup>o</sup>	38,510	643,502
<b>Reits &amp; Real Estate Management — 4.9%</b>		
iStar Financial, Inc. REIT*	110,010	892,181
Redwood Trust, Inc. REIT <sup>o</sup>	62,285	941,749
Winthrop Realty Trust REIT <sup>o</sup>	29,840	356,290
		2,190,220
<b>Total Common Stocks</b>		<b>\$ 39,387,201</b>
<b>Corporate Bond — 0.9%</b>		
<b>Banking Services — 0.9%</b>		
Synovus Financial Corp., 4.88%, 2/15/13	\$ 415,000	\$ 393,769
<b>Repurchase Agreement — 13.2%</b>		
BNP Paribas Securities Corp.,		
0.03%, Agreement dated 06/30/2011 to be repurchased at \$5,966,469		
on 07/01/2011. Repurchase agreement is fully collateralized		
by various U.S. Government Agency securities with a range		
of rates from 0.0% – 6.3%, and maturities from		
08/02/2011 through 06/12/2037 <sup>†</sup>	\$5,966,464	\$ 5,966,464

	Shares/ Par Value	Fair Value
<b>Registered Investment Company — 8.9%</b>		
JPMorgan 100% U.S. Treasury Securities Money Market Fund, Capital Shares	\$4,051,596	\$ 4,051,596
<b>Total Investment Securities — 112.1%</b> (Cost \$44,826,786)**		\$50,651,134
<b>Segregated Cash With Brokers — 4.6%</b>		2,067,663
<b>Securities Sold Short — (5.7)%</b> (Proceeds \$2,541,253)		(2,569,093)
<b>Net Other Assets (Liabilities) — (11.0%)</b>		(4,982,178)
<b>Net Assets — 100.0%</b>		\$45,167,526

\* Non-income producing security.

\*\* Represents cost for financial reporting purposes.

◊ All or a portion of the security is on loan. The total market value of the securities on loan, as of June 30, 2011, was \$5,819,155.

† This security, which was purchased using cash collateral received from securities on loan, represents collateral for securities loaned as of June 30, 2011.

§ Security position is either entirely or partially held in a segregated account as collateral for securities sold short aggregating a total market value of \$3,180,242.

REIT – Real Estate Investment Trust

# Diamond Hill Financial Trends Fund, Inc.

## Schedule of Securities Sold Short

June 30, 2011 (Unaudited)

	Shares	Fair Value
<b>Common Stocks — 5.7%</b>		
<b>Banking Services — 5.0%</b>		
Eagle Bancorp, Inc.*	30,610	\$ 407,113
First Financial Bankshares, Inc.	16,042	552,647
Home Bancshares, Inc.	21,325	504,123
United Bankshares, Inc.	9,820	240,394
WesBanco, Inc.	28,120	552,839
		2,257,116
<b>Financial Services — 0.7%</b>		
Moody's Corp.	8,135	311,977
<b>Total Common Stocks Sold Short</b>		
(Proceeds \$2,541,253)		\$2,569,093

\* Non-dividend expense producing security.

Percentages disclosed are based on total net assets of the Fund at June 30, 2011.

# Financial Statements

## Statement of Assets and Liabilities June 30, 2011 (Unaudited)

**This Statement of Assets and Liabilities is the Fund's balance sheet. It shows the value of what the Fund owns, is due and owes. You'll also find the net asset value for each common share.**

### Assets

Investments, at fair value (cost \$38,860,322) - including \$5,819,155 of securities loaned	\$44,684,670
Repurchase agreement, at value (cost \$5,966,464)	5,966,464
Deposit with broker for securities sold short	2,067,663
Cash	2,153
Receivable for investments sold	1,007,710
Receivable for dividends and interest	55,072
Prepaid Assets	12,643
<b>Total assets</b>	<b>53,796,375</b>

### Liabilities

Securities sold short, at value (proceeds \$2,541,253)	2,569,093
Return of collateral for securities on loan	5,966,464
Payable to Investment Adviser	24,185
Payable for dividends on securities sold short	11,014
Payable to Administrator	5,458
Other payables and accrued expenses	52,635
<b>Total liabilities</b>	<b>8,628,849</b>

### Net Assets

Capital paid-in	39,977,745
Accumulated net investment income	63,561
Accumulated net realized loss on investments	(670,288)
Net unrealized appreciation on investments	5,796,508
<b>Net assets</b>	<b>\$45,167,526</b>

### Net asset value per share

Based on 3,968,124 shares outstanding - 50 million shares authorized with par value of \$0.001 per share.	\$ 11.38
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## Statement of Operations For the six months ended June 30, 2011 (Unaudited)

**This Statement of Operations summarizes the Fund's investment income earned and expenses incurred in operating the Fund. It also shows net gains (losses) for the period stated.**

<b>Investment income</b>	
Dividends	\$ 341,073
Interest	15,595
<b>Total investment income</b>	<b>356,668</b>
<b>Expenses</b>	
Investment management fees	149,076
Administration fees	34,402
Custodian fees	4,940
Directors' fees	38,794
Professional fees	18,851
Regulatory fees	8,462
Transfer agent fees	28,166
Postage and printing fees	10,994
Dividend expense on securities sold short	36,837
Insurance	7,859
<b>Total expenses</b>	<b>338,381</b>
<b>Net investment income</b>	<b>18,287</b>
<b>Realized and unrealized gain (loss)</b>	
Net realized gain (loss) on	
Security sales	1,256,924
Closed short positions	197,983
Change in net unrealized appreciation (depreciation) of	
Investments	(2,073,872)
Securities sold short	147,038
<b>Net realized and unrealized loss</b>	<b>(471,927)</b>
<b>Decrease in net assets from operations</b>	<b>\$ (453,640)</b>

## Statements of Changes in Net Assets

These Statements of Changes in Net Assets show how the value of the Fund's net assets has changed during the last two periods. The difference reflects earnings less expenses, any investment gains and losses, distributions paid to shareholders and the net of Fund share transactions, if any.

	For the Six Months Ended June 30, 2011 (Unaudited)	Year Ended December 31, 2010
<b>Increase (decrease) in net assets</b>		
<b>From operations</b>		
Net investment income	\$ 18,287	\$ 163,476
Net realized gain from security sales	1,256,924	4,157,639
Net realized gain from closed short positions	197,983	239,849
Change in net unrealized appreciation (depreciation)	(1,926,834)	2,433,914
<b>Decrease in net assets resulting from operations</b>	<b>(453,640)</b>	<b>6,994,878</b>
<b>Distributions to common shareholders</b>		
From net investment income	—	(348,401)
From net realized gain	—	—
<b>Decrease in net assets from distributions to common shareholders</b>	<b>—</b>	<b>(348,401)</b>
<b>From Capital Share Transactions</b>		
Repurchase of Shares (25,000 shares)	—	(237,380)
<b>Net Decrease in Net Assets from Capital Share Transactions</b>	<b>—</b>	<b>(237,380)</b>
<b>Net assets</b>		
Beginning of period	45,621,166	39,212,069
<b>End of period</b>	<b>\$45,167,526</b>	<b>\$45,621,166</b>
<b>Accumulated net investment income</b>	<b>\$ 63,561</b>	<b>\$ 45,274</b>

## Financial Highlights

The Financial Highlights shows how the Fund's net asset value for a share has changed since the end of the previous period.

	For the Six Months Ended June 30, 2011 (Unaudited)	Year ended December 31,				
		2010	2009	2008	2007	2006
<b>Per share operating performance</b>						
<b>Net asset value, beginning of period</b>	<b>\$ 11.50</b>	<b>\$ 9.82</b>	<b>\$ 8.36</b>	<b>\$ 15.73</b>	<b>\$ 21.25</b>	<b>\$19.46</b>
Net investment income <sup>1</sup>	—	0.04	0.18	0.38	0.28	0.25
Net realized and unrealized gain (loss) on investments	(0.12)	1.73	1.61	(7.33)	(3.31)	2.69
<b>Total from investment operations</b>	<b>(0.12)</b>	<b>1.77</b>	<b>1.79</b>	<b>(6.95)</b>	<b>(3.03)</b>	<b>2.94</b>
<b>Less distributions</b>						
From net investment income	—	(0.09)	(0.33)	(0.10)	(0.28)	(0.26)
From net realized gain	—	—	—	(0.32)	(2.21)	(0.89)
<b>Total distributions</b>	<b>—</b>	<b>(0.09)</b>	<b>(0.33)</b>	<b>(0.42)</b>	<b>(2.49)</b>	<b>(1.15)</b>
<b>Net asset value, end of period</b>	<b>\$ 11.38</b>	<b>\$11.50</b>	<b>\$ 9.82</b>	<b>\$ 8.36</b>	<b>\$ 15.73</b>	<b>\$21.25</b>
<b>Per share market value, end of period</b>	<b>\$ 9.85</b>	<b>\$ 9.81</b>	<b>\$ 7.88</b>	<b>\$ 6.35</b>	<b>\$ 13.75</b>	<b>\$19.01</b>
<b>Total return at net asset value</b> <sup>2</sup> (%)	<b>(1.04)<sup>5</sup></b>	<b>18.27</b>	<b>22.67</b>	<b>(44.30)</b>	<b>(12.50)</b>	<b>15.92<sup>3</sup></b>
<b>Total return at market value</b> <sup>2</sup> (%)	<b>0.41<sup>5</sup></b>	<b>25.72</b>	<b>29.60</b>	<b>(51.60)</b>	<b>(14.50)</b>	<b>20.99</b>

<b>Ratios and supplemental data</b>						
Net assets, end of period (in millions)	\$ 45	\$ 46	\$ 39	\$ 33	\$ 63	\$ 85
Ratio of gross expenses to average net assets (%)	1.48 <sup>4</sup>	1.42	1.64	1.53	1.30	1.21
Ratio of net expenses to average net assets (%)	1.48 <sup>4</sup>	1.42	1.32	1.26	1.28	1.21
Ratio of net expenses to average net assets, excluding dividends on securities sold short (%)	1.31 <sup>4</sup>	1.26	1.15	1.15	—	—
Ratio of net investment income to average net assets (%)	0.08 <sup>4</sup>	0.38	2.21	3.09	1.36	1.21
Portfolio turnover (%)	24 <sup>5</sup>	51	81	65	42	10

<sup>1</sup> Based on the average of the shares outstanding.

<sup>2</sup> Total return based on net asset value reflects changes in the Fund's net asset value during each year. The total return based on market value reflects changes in market value. Each figure assumes that dividend and capital gain distributions, if any, were reinvested. These figures will differ upon the level of any discount from or premium to net asset value at which the Fund's shares traded during the year.

<sup>3</sup> Unaudited.

<sup>4</sup> Annualized.

<sup>5</sup> Not annualized.

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## Notes to Financial Statements (Unaudited)

### Note 1

#### Accounting policies

The Diamond Hill Financial Trends Fund, Inc. (the “Fund”) is a diversified closed-end management investment company registered under the Investment Company Act of 1940 (the “1940 Act”), as amended.

#### Significant accounting policies of the Fund are as follows:

##### Valuation of investments

###### Security valuation

The Fund records its investments at fair value. Fair Value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation techniques used to determine fair value are further described below.

The net asset value of the common shares of the Fund is determined daily as of the close of the NYSE, normally at 4:00 P.M. Eastern Time. Short-term debt investments of sufficient credit quality maturing in less than 61 days are valued at amortized cost, and thereafter assume a constant amortization to maturity of any discount or premium, which approximates fair value. Investments in other investment companies are valued at their reported net asset value. All other securities held by the Fund are valued at the last sale price or official closing price (closing bid price or last evaluated quote if no sale has occurred) as of the close of business on the principal securities exchange (domestic or foreign) on which they trade or, lacking any sales, at the closing bid price. Securities traded only in the over-the-counter market are valued at the last bid price quoted by brokers making markets in the securities at

the close of trading. Securities for which there are no such quotations, principally debt securities, are valued based on the valuation provided by an independent pricing service, which utilizes both dealer-supplied and electronic data processing techniques, which take into account factors such as institutional-size trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, trading characteristics and other market data.

Other assets and securities for which no such quotations are readily available (e.g., an approved pricing service does not provide a price, certain stale prices, or an event that materially affects the furnished price) are valued at fair value as determined in good faith under consistently applied procedures established by and under the general supervision of the Board of Directors.

The valuation techniques described maximize the use of observable inputs and minimize the use of unobservable inputs in determining fair value. These inputs are summarized in the three broad levels listed below:

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund’s own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. For example, short-term debt securities of

sufficient credit quality maturing in less than 61 days are valued using amortized cost, in accordance with rules under the 1940 Act.

Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities would be reflected as Level 2.

The following is a summary of the inputs used to value the Funds net assets as of June 30, 2011:

	Level 1 - Quoted Prices	Level 2 - Other Significant Observable Inputs
<b>Investments in Securities:</b>		
<b>(Assets)</b>		
Common Stocks*	\$ 39,387,201	\$ —
Preferred Stocks*	852,104	—
Corporate Bonds*	—	393,769
Registered Investment Companies	4,051,596	—
Repurchase Agreements	—	5,966,464
Total	\$ 44,290,901	\$6,360,233

**Investment in Securities Sold Short:  
(Liabilities)**

Common Stocks*	\$ (2,569,093)	\$ —
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\* See Schedule of Investments and Schedule of Securities Sold Short for industry classification.

There were no significant transfers in and out of Levels 1, 2, or 3 during the six months ended June 30, 2011 and the Fund held no Level 3 securities at June 30, 2011.

**New accounting pronouncement**

In May 2011, the Financial Accounting Standards Board issued Accounting Standard Update No. 2011-04, *Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The update changes the wording used

to describe the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. The update is effective during interim and annual periods beginning after December 15, 2011. Management is currently evaluating the impact of the update's adoption on the Fund's financial statement disclosures.

**Investment transactions**

Investment transactions are accounted for no later than the first business day after trade date for daily net asset value calculations throughout the period. However, for financial reporting purposes, investment transactions are reported on trade date at the end of the period. Net realized gains and losses on sales of investments are determined on the identified cost basis.

**Short sales**

The Fund is permitted to make short sales of securities. Short sales are effective when it is believed that the price of a particular security will decline, and involves the sale of a security which the Fund does not own in hope of purchasing the same security at a later date at a lower price. To make delivery to the buyer, the Fund must borrow the security, and the Fund is obligated to return the security to the lender, which is accomplished by a later purchase of the security by the Fund.

The Fund will incur a loss as a result of a short sale if the price of the security increases between the date of the short sale and the date on which the Fund purchases the security to replace the borrowed security. The use of short sales may cause the Fund to have higher expenses (especially dividend expenses) than those of other equity mutual funds. Short sales are speculative transactions and involve special risks, including greater reliance on the ability of Diamond Hill Capital Management, Inc. ("Adviser") to accurately anticipate the future value of a security.

## Securities lending

The Fund has a securities lending agreement with JPMorgan Chase Bank, N.A. (“JPMorgan”). Under the terms of the agreement, JPMorgan is authorized to loan securities on behalf of the Fund to approved borrowers. In exchange, the Fund receives cash collateral in the amount of at least 100% of the value of the securities loaned. The cash collateral is invested in short term instruments as noted in the Schedule of Investments. Although risk is mitigated by the collateral, the Fund could experience a delay in recovering its securities and possible loss of income or value if the borrower fails to return them. The agreement indemnifies the Fund from losses incurred in the event of a borrower’s material default of the terms and conditions of the borrower agreement. The agreement provides that after predetermined rebates to brokers, net securities lending income shall first be solely paid as credits and offset against costs and other charges incurred by the Fund with JPMorgan. Any remaining securities lending revenue is then paid to the Fund as securities lending income. The net securities lending income is presented in the Statement of Operations.

As of June 30, 2011, the value of securities loaned and the collateral held were as follows:

<b>Fair Value of Securities Loaned</b>	<b>Fair Value of Collateral Received</b>
\$5,819,155	\$5,966,464

## Federal income taxes

The Fund qualifies as a “regulated investment company” by complying with the applicable provisions of the Internal Revenue Code and will not be subject to federal income tax on taxable income that is distributed to shareholders. Therefore, no federal income tax provision is required. The Fund has analyzed its tax positions taken on Federal income tax returns for all open tax years (tax years ended December 31, 2007 through 2010) and has

concluded that no provision for income tax is required in the financial statements.

## Dividends, interest and distributions

Dividend income on investment securities is recorded on the ex-dividend date or, in the case of some foreign securities, on the date thereafter when the Fund identifies the dividend. Interest income on investment securities is recorded on the accrual basis. Foreign dividend income may be subject to foreign withholding taxes, which are accrued as applicable.

The Fund records distributions to shareholders from net investment income and net realized gains, if any, on the ex-dividend date.

Such distributions on a tax basis, are determined in conformity with income tax regulations, which may differ from U.S. generally accepted accounting principles (GAAP). Distributions in excess of tax basis earnings and profits, if any, are reported in the Fund’s financial statements as a return of capital.

## Use of estimates

The preparation of financial statements, in accordance with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

## Note 2

### Management fees and transactions with affiliates and others Investment advisory

The Fund has entered into an Investment Advisory Agreement with the Adviser whereby the Adviser provides management of the investment and reinvestment of the Fund’s assets; continuous review, supervision, and administration of the investment program of the Fund and provides office space, furnishings

and equipment used to carry out the investment management of the Fund. For these services, the Adviser receives a fee at an annual rate of 0.65% of the Fund's average weekly net asset value, or a flat annual fee of \$50,000, whichever is higher. If total Fund expenses exceed 2% of the Fund's average weekly net asset value in any one year, the Fund requires the Adviser to reimburse the Fund for such excess, subject to a minimum fee of \$50,000.

### **Administration**

The Fund has entered into an Administration Agreement with the Adviser, whereby the Adviser agrees to oversee the determination and publication of the Fund's net assets value, the maintenance of the books and records of the Fund; prepare the financial information for the Fund's proxy statements, if required, and semi-annual and annual reports to shareholders; prepare the Fund's periodic financial reports to the Securities and Exchange Commission; respond to shareholder inquiries; and supply the Board of Directors and Officers of the Fund with all statistical information and reports reasonably required by them. For these services, the Adviser receives a fee at an annual rate of 0.15% of the Fund's average weekly assets or \$22,000, whichever is higher.

The Adviser has entered into a Sub-Administration Agreement with JPMorgan, whereby JPMorgan will provide sub-administration services for the Fund. The services provided under the agreement includes day-to-day administration of matters related to the corporate existence of the Fund (other than rendering investment advice), maintenance of books and records, preparation of reports, and supervision of the Fund's arrangement with the custodian.

The Fund does not pay remuneration to its Officers. Certain Officers of the Fund are employees of the Adviser.

### **Directors fees**

The Chairman of the Board of Directors receives an annual retainer of \$16,000. Each additional Independent Board member receives an annual retainer of \$10,000. The meeting attendance fee is \$1,250 per Director for each quarterly in-person meeting. The Fund paid \$33,000 in aggregate directors fees during the six months ended June 30, 2011.

### **Note 3**

#### **Guarantees and indemnifications**

Under the Fund's organizational documents, its Officers and Directors are indemnified against certain liability arising out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund believes the risk of loss to be remote.

### **Note 4**

#### **Fund share transactions**

The Fund from time-to-time may, but is not required to, make open market repurchases of its shares in order to attempt to reduce or eliminate the amount of any market value discount or to increase the net asset value of its shares, or both. In addition, the Board currently intends, each quarter during periods when the Fund's shares are trading at a discount from the net asset value, to consider the making of tender offers. The Board may at any time, however, decide that the Fund should not make share repurchases or tender offers.

During the fiscal year ended December 31, 2010, the Fund repurchased 25,000 (0.63% of shares outstanding) of its shares under the share repurchase program authorized by the

Board of Directors. The corresponding dollar amount of the share repurchase amounted to \$237,380 with a weighted average price per share of \$9.50 and a weighted average discount per share at 16.5%.

### Note 5 Share repurchase plan

On December 15, 2009, the Board of Directors authorized a share repurchase plan. Under the share repurchase plan, the Fund may purchase in the open market up to 200,000 of its outstanding shares and is effective until the earlier of its termination by vote of the Directors or the repurchase of 200,000 shares. The share repurchase program is intended to increase the Fund's net asset value per share of the Fund's remaining shares.

### Note 6 Investment transactions

Purchases and proceeds from sales or maturities of securities, other than short term securities and obligations of the U.S. government, during the six months ended June 30, 2011, aggregated \$10,033,827 and \$9,887,198, respectively.

### Note 7 Federal tax information

The amount and character of income and capital gain distributions paid by the Fund are determined in accordance with Federal income tax regulations which may differ from GAAP. The tax character of distributions paid may differ from the character of distributions shown on the Statements of Changes in Net Assets due primarily to short-term capital gains being treated as ordinary income for tax purposes.

The tax character of dividends paid to shareholders during 2010 and 2009 was as follows:

	Ordinary Income	Long-Term Gains	Total
2010	\$ 348,401	\$ —	\$ 348,401
2009	1,317,759	—	1,317,759

The following information is computed on a tax basis for each item of the Fund as of December 31, 2010:

Tax cost of portfolio investments	\$39,774,464
Gross unrealized appreciation	8,795,400
Gross unrealized depreciation	(1,374,204)
Net unrealized appreciation	7,421,196
Undistributed ordinary Income	4,751
Capital loss carryforwards	(1,782,526)
Accumulated earnings	<u>5,643,421</u>

As of June 30, 2011, the Fund's federal tax cost of investment securities and net unrealized appreciation (depreciation) was as follows:

Tax cost of portfolio investments	\$45,289,389
Gross unrealized appreciation	6,660,806
Gross unrealized depreciation	(1,299,061)
Net unrealized appreciation	5,361,745

As of December 31, 2010, the Fund had net capital loss carryforwards expiring as follows:

Amount	Expires December 31,
\$ 1,782,526	2017

The tax character of current year distributions paid and the tax basis of the current components of accumulated earnings (deficit) and any net capital loss carryforwards will be determined at the end of the current tax year.

The Regulated Investment Company Modernization Act of 2010 (the "Act") was enacted on December 22, 2010. The Act makes changes to several tax rules impacting the Fund. In general, the provisions of the Act will be effective for the Fund's fiscal year ending December 31, 2011. Although the Act provides several benefits, including the unlimited carryover of future capital losses, there may be a greater likelihood that all or a portion of the fund's pre-enactment capital loss carryovers may expire without being utilized due to the fact that post-enactment capital losses get utilized before pre-enactment capital loss carryovers. Relevant information regarding the

impact of the Act on the Fund, if any, will be contained within the Federal tax information section of the notes to financial statements beginning in 2011 reporting periods.

these financial statements were issued. There were no subsequent events to report that would have a material impact on the financial statements.

**Note 8**  
**Subsequent events**

The Fund evaluated subsequent events from June 30, 2011 through the date of

## Supplemental Information (unaudited)

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### Tax information

For federal income tax purposes, the following information was furnished with respect to the distributions of the Fund, if any, paid during its taxable year ended December 31, 2010.

With respect to the ordinary dividends paid by the Fund for the fiscal year ended December 31, 2010, 100% of the dividends qualified for the corporate dividends-received deduction.

The Fund designated the maximum amount allowable of its net taxable income as qualified dividend income as provided in the Jobs and Growth Tax Relief Reconciliation Act of 2003. This amount was reflected on Form 1099-DIV for the calendar year 2010.

Shareholders were mailed a 2010 U.S. Treasury Department Form 1099-DIV in January 2011. This will reflect the total of all distributions that are taxable for calendar year 2010.

### Proxy voting

The Adviser is responsible for exercising the voting rights associated with the securities purchased and held by the Fund. A description of the policies and procedures that the Adviser uses in fulfilling this responsibility and information regarding how those proxies were voted during the twelve month period ended June 30 are available without charge upon request by calling 1-614-255-4080 or on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

## Investment objective and policy

The Fund's investment objective is to provide long-term capital appreciation. The Fund will seek to achieve its investment objective of long-term capital appreciation by investing between 80% and 115% of its assets long and sell short between 5% and 25% of its assets in stocks of U.S. financial services companies of any size. These companies include banks, thrifts, finance companies, brokerage and advisory firms, real estate-related firms, insurance companies and financial holding companies. These companies are usually regulated by governmental or quasigovernmental entities and, as a result, are subject to the risk that regulatory developments will adversely affect them. With respect to the Fund's investment policy of investing at least 80% of "assets" in equity securities, "assets" is defined as net assets plus the amount of any borrowings for investment purposes. The Fund will notify shareholders at least 60 days prior to any change in this policy. In abnormal market conditions, the Fund may take temporary defensive positions.

As such, the Fund may temporarily invest all of its assets in investment-grade, short-term securities. In such circumstances, the Fund may not achieve its objective. The Fund's current investment restriction, relating to industry concentration, has been modified to remove the reference to the banking and savings industry so that it reads as follows: "Except for temporary defensive purposes, the Fund may not invest more than 25% of its total assets in any one industry or group of related industries, except that the Fund will invest more than 25% of its assets in the financial services sector."

## Portfolio management

Mr. Christopher Bingaman assumed responsibility as the portfolio manager of the Fund on December 1, 2007. Mr. Bingaman has a Bachelor of Arts degree in Finance (cum laude) from Hillsdale College, a Masters degree in Business Administration from the University of Notre Dame and holds the CFA designation. He has been an investment professional with Diamond Hill Capital

Management, Inc. since March 2001. From 1998 to March 2001, Mr. Bingaman was a Senior Equity Analyst for Villanova Capital/Nationwide Insurance. In 1997, Mr. Bingaman was an Equity Analyst for Dillon Capital Management, an investment advisory firm.

Mr. Austin Hawley assumed responsibility as assistant portfolio manager of the Fund on December 31, 2009. Mr. Hawley has a B.A. degree in history with an economics minor from Dartmouth College (cum laude), a Masters degree in Business Administration from the Tuck School of Business at Dartmouth College, and holds the CFA designation. He has been an investment professional with Diamond Hill Capital Management, Inc. since August 2008. From 2004 to 2008, Mr. Hawley was an Equity Analyst at Putnam Investments. He served as an Investment Associate at Putnam Investments from 1999 to 2002.

Mr. John Loesch assumed responsibility as assistant portfolio manager of the Fund on December 31, 2009. Mr. Loesch has a B.S. degree in public affairs with an emphasis in public financial management from Indiana University, a Masters degree in Business Administration from University of Notre Dame-Mendoza College of Business (cum laude), and holds the CFA designation. He has been with Diamond Hill Capital Management, Inc. since May 2007. From 2003 to 2006, Mr. Loesch was an Analyst with Nationwide Financial. He served as a Financial Advisor with UBS Financial Services from 2001 to 2003.

## Bylaws

In January 2003, the Board of Directors adopted several amendments to the Fund's bylaws, including provisions relating to the calling of a special meeting and requiring advance notice of shareholder proposals or nominees for director. The advance notice provisions in the bylaws require shareholders to notify the Fund in writing of any proposal that they intend to present at an annual meeting of shareholders, including any

nominations for Director, between 90 and 120 days prior to the first anniversary of the mailing date of the notice from the prior year's annual meeting of shareholders. The notification must be in the form prescribed by the bylaws. The advance notice provisions provide the Fund and its Directors with the opportunity to thoughtfully consider and address the matters proposed before the Fund prepares and mails its proxy statement to shareholders. Other amendments set forth the procedures that must be followed in order for a shareholder to call a special meeting of shareholders. The Fund is presently listed on NASDAQ and, per a grandfathering provision, is not required to hold annual shareholder meetings. The Board approved the above amendment to the Fund's bylaws to provide a defined structure for the submission of shareholder proposals should the circumstances change and an annual meeting be required. Please contact the Secretary of the Fund for additional information about the advance notice requirements or the other amendments to the bylaws.

In November 2005, the Fund's Board of Directors adopted amendments to the Fund's bylaws regarding the Chairman of the Board position: The scope of the Chairman's responsibilities and fiduciary obligations were further defined. Also disclosure regarding the election, resignation and removal of the Chairman as well as the filling of a vacancy was added.

At a quarterly meeting of the Fund's Board of Directors held February 13, 2006, the Board amended Article II Section 2 of the Fund's bylaws to state that a special meeting of the shareholders, unless otherwise provided by law or by the Articles of Incorporation, may be called for any purpose or purposes by a majority of the Board of Directors, the President, or, subject to Section 2(c), by the Secretary of the Corporation upon the written request of shareholders entitled to cast at least 35% of all votes entitled to be cast at the meeting.

In November 2007, the Fund's Board of Directors adopted several amendments to the

Fund's bylaws. First, the Board further clarified the treatment of street name shares held by brokers without authority to vote them as to a particular proposal. Those shares are treated as shares present and entitled to vote with respect to the proposal, but will not be counted as a vote in favor of the proposal. Also, the Board amended the bylaws to provide that a plurality of votes cast at a meeting of stockholders at which quorum is present shall be sufficient to elect a director.

In February 2011, the Fund's Board of Directors adopted an amendment to the Fund's bylaws to the effect the Chairman no longer needed to be a person who is not an interested person of the Fund, but could not be an affiliate of the Fund's investment adviser or administrator.

### **Dividend reinvestment plan**

The Fund offers its registered shareholders an automatic Dividend Reinvestment Plan (the "Plan"), which enables each participating shareholder to have all dividends (including income dividends and/or capital gains distributions) payable in cash, reinvested by Mellon Investor Services (the "Plan Agent") in shares of the Fund's common stock. However, shareholders may elect not to enter into, or may terminate at any time without penalty, their participation in the Plan by notifying the Plan Agent in writing. Shareholders who do not participate in the Plan will receive all dividends in cash.

In the case of shareholders such as banks, brokers or nominees who hold shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of record ownership of shares. These record shareholders will receive dividends under the Plan on behalf of participating beneficial owners and cash on behalf of non-participating beneficial owners. These record holders will then credit the beneficial owners' accounts with the appropriate stock or cash distribution.

Whenever the market price of the Fund's stock equals or exceeds net asset value per share, participating shareholders will be issued

stock valued at the greater of (i) net asset value per share or (ii) 95% of the market price. If the net asset value per share of the Fund's stock exceeds the market price per share, the Plan Agent shall make open market purchases of the Fund's stock for each participating shareholder's account. These purchases may begin no sooner than five business days prior to the payment date for the dividend and will end up to thirty days after the payment date. If shares cannot be purchased within thirty days after the payment date, the balance of shares will be purchased from the Fund at the average price of shares purchased on the open market. Each participating shareholder will be charged a pro rata share of brokerage commissions on all open market purchases. The shares issued to participating shareholders, including fractional shares, will be held by the Plan Agent in the name of the shareholder. The Plan Agent will confirm each acquisition made for the account of the participating shareholders as soon as practicable after the payment date of the distribution.

The reinvestment of dividends does not relieve participating shareholders of any federal, state or local income tax that may be due with respect to each dividend. Dividends reinvested in shares will be treated on your federal income tax return as though you had received a dividend in cash in an amount equal to the fair market value of the shares received, as determined by the prices for shares of the Fund on the Nasdaq National Market System as of the dividend payment date. Distributions from the Fund's long-term capital gains will be taxable to you as long-term capital gains. The confirmation referred to above will contain all the information you will require for determining the cost basis of shares acquired and should be retained for that purpose. At year end, each account will be supplied with detailed information necessary to determine total tax liability for the calendar year.

All correspondence or additional information concerning the Plan should be directed to the Plan Agent, Mellon Bank, N.A., c/o Mellon

Investor Services at P.O. Box 3338, South Hackensack, New Jersey 07606-1938 (Telephone: 1-877-254-8583).

### **Shareholder communication and assistance**

If you have any questions concerning the Fund, we will be pleased to assist you. If you hold shares in your own name and not with a brokerage firm, please address all notices, correspondence, questions or other communications regarding the Fund to the transfer agent at:

**Mellon Investor Services  
Newport Office Center VII  
480 Washington Boulevard  
Jersey City, NJ 07310  
Telephone: 1-877-254-8583**

If your shares are held with a brokerage firm, you should contact that firm, bank or other nominee for assistance.

# For more information

The Fund's proxy voting policies, procedures and records are available without charge, upon request:

**By phone**

1-614-255-4080

**On the Fund's Web site**

[www.diamond-hill.com/closedendfund.asp](http://www.diamond-hill.com/closedendfund.asp)

**On the SEC's Web site**

[www.sec.gov](http://www.sec.gov)

**Directors**

Franklin C. Golden  
Russell J. Page  
Fred G. Steingraber  
Donald R. Tomlin

**Investment adviser**

Diamond Hill Capital Management, Inc.  
325 John H. McConnell Boulevard, Suite 200  
Columbus, Ohio 43215

**Independent directors'  
Counsel**

Paul, Hastings  
600 Peachtree St., N.E.  
Twenty – Fourth Floor  
Atlanta, GA 30308

**Officers**

Franklin C. Golden  
*Chairman*  
James Laird  
*President*  
Gary Young  
*Treasurer, CCO, Secretary*  
Brian Risinger  
*Assistant Treasurer*

**Custodian**

JPMorgan Chase Bank, N.A.  
14201 North Dallas Parkway  
Dallas, TX 75254-2916

**Transfer agent and registrar**

Mellon Investor Services  
Newport Office Center VII  
480 Washington Boulevard  
Jersey City, NJ 07310

**Stock symbol**

Listed Nasdaq Symbol:  
DHFT

**For shareholder  
assistance,  
refer to page 21**

**How to contact us**

**Internet**

[www.diamond-hill.com](http://www.diamond-hill.com)

**Mail**

Mellon Investor Center  
Newport Office Center VII  
480 Washington Boulevard  
Jersey City, NJ 07310

**Phone**

Customer service representatives	1-877-254-8583
Information Line	1-614-255-4080

A listing of month-end portfolio holdings is available on our Web site, [www.diamond-hill.com](http://www.diamond-hill.com). Additionally portfolio holdings are available on a quarterly basis 60 days after the fiscal quarter on our Web site or upon request by calling 1-614-255-4080, or on the SEC's Web site, [www.sec.gov](http://www.sec.gov).

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## **NOTICE OF PRIVACY POLICY**

In order to enhance our ability to provide you with the best service possible, the Diamond Hill Financial Trends Fund (referred to as “we” or “us”) collects, uses and shares certain information about you. This policy explains what information we collect and with whom we share it. The practices described in this policy are applicable to all customers, including prospective, current and former customers. The policy also explains how we protect the security and confidentiality of certain customer information. We make reference to our “affiliates” in this policy. Affiliates are companies related to us by common control, including Diamond Hill Capital Management, Inc., Diamond Hill Investment Group, Inc., Beacon Hill Fund Services, Inc. and BHIL Distributors, Inc.

### **SAFEGUARDING PRIVACY**

We maintain physical, electronic and procedural safeguards that comply with federal standards to ensure the safety of non-public personal customer information.

### **INFORMATION WE COLLECT AND SOURCES OF INFORMATION**

We may collect information about our customers to help identify you, evaluate your application, service and manage your account and offer services and products you may find valuable. We collect this information from a variety of sources including:

- Information we receive from you on applications or other forms (e.g. your name, address, date of birth, social security number and investment information).
- Information about your transactions and experiences with us and our affiliates (e.g. your account balance, transaction history and investment selections); and
- Information we obtain from third parties regarding their brokerage, investment advisory, custodial or other relationship with you (e.g. your account number, account balance and transaction history).

### **INFORMATION WE SHARE WITH SERVICE PROVIDERS**

We may disclose all non-public personal information we collect, as described above, to companies (including affiliates) that perform services on our behalf, including those that assist us in responding to inquiries, processing transactions, preparing and mailing account statements and other forms of shareholder services provided they use the information solely for these purposes and they enter into a confidentiality agreement regarding the information.

### **INFORMATION WE SHARE WITH AFFILIATES**

Our affiliates are financial service providers that offer investment advisory and other financial services. In addition to the information we share with affiliates that provide services to us, we may share information among our affiliates to better assist you in achieving your financial goals.

### **PRIVACY PROMISE FOR CUSTOMERS**

We will safeguard, according to federal standards of security and confidentiality, any non-public personal information our customers share with us.

We will limit the collection and use of non-public customer information to the minimum necessary to deliver superior service to our customers which includes advising our customers about our products and services and to administer our business.

We will permit only authorized employees who are trained in the proper handling of non-public customer information to have access to that information.

We will not reveal non-public customer information to any external organization unless we have previously informed the customer in disclosures or agreements, have been authorized by the customer or are required by law or our regulators.

We value you as a customer and take your personal privacy seriously. We will inform you of our policies for collecting, using, securing and sharing non-public personal information the first time we do business and every year that you are a customer of the Diamond Hill Financial Trends Fund or anytime we make a material change to our privacy policy.



325 John H. McConnell Blvd.  
Suite 200  
Columbus, Ohio 43215

614.255.3333  
[www.diamond-hill.com](http://www.diamond-hill.com)

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**Investment Adviser**  
Diamond Hill Capital Management, Inc.

**For additional information, call:**  
Mellon Investor Services  
TOLL FREE 877.254.8583