

# Quarterly Commentary



DIAMOND HILL<sup>®</sup>  
funds

September 30, 2010

SMALL CAP FUND

SMALL-MID CAP FUND

LARGE CAP FUND

SELECT FUND

LONG-SHORT FUND

FINANCIAL LONG-SHORT FUND

STRATEGIC INCOME FUND

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# 2010 Third Quarter Review

Despite political and economic uncertainty as well as a continued exodus of individual investors from U.S. stocks, the S&P 500 Index returned 11.3% in the third quarter, reversing the second quarter losses and posting the strongest September return since 1939. Year-to-date, the S&P 500 increased just 3.9%, including dividends, through the end of September. The news headlines were dominated by concerns of a double dip recession, a reemergence of the European sovereign debt crisis, the expiration of Bush-era tax cuts and the impact of financial regulation; but the strong September results may indicate investors' willingness to look to the November elections to resolve uncertainty around tax policy and government regulation. Resolution of these uncertainties could be a catalyst for corporations to put record levels of cash to work through share repurchases, dividend increases or M&A activity, which could provide support for a continued stock rally.

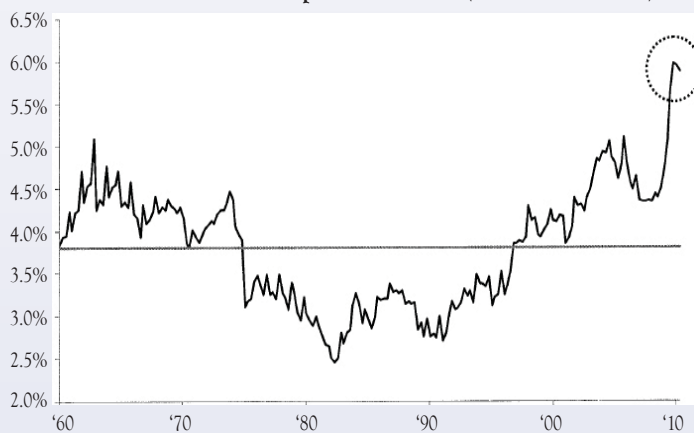
increased modestly and housing starts were significantly higher than expected in August following weakness in prior months as the first time home buyer tax credit expired. Retail sales were relatively flat, but consumer confidence declined during the quarter. In the corporate sector, the ISM manufacturing index increased in August after four straight months of decline. Second quarter GDP declined to 1.7% down from a revised 3.7% annual growth rate in the first quarter of 2010. Durable goods orders also declined.

## Market Outlook

In our opinion, equities appear attractive relative to fixed income securities, and in all of our equity strategies we are finding more value in companies at the higher end of their respective market capitalization ranges. We continue to emphasize companies with stable business models, competitive positioning, quality management teams and strong balance sheets. Our long-term secular thesis for the consumer remains unchanged. We believe that consumer discretionary spending will likely face secular headwinds for the foreseeable future, due to high unemployment rates, household deleveraging and tax increases. This thesis is reflected in less exposure to the consumer discretionary sector in our long-only strategies and more consumer discretionary short positions in our Long-Short strategy. Finally, we continue to expect economic challenges as a result of the removal of fiscal and monetary stimulus in the coming years.

In recent years, U.S. stocks have increasingly moved in lock step with macro-economic forces, reacting to the headline news of the day. In our view, when stocks move for an extended period of time based on factors other than fundamental valuation, it generally creates investment opportunities. Assessing the impact of macro-economic factors has been a more important part of estimating the long-term intrinsic value of companies in recent years; however, it is still just one of many factors that we consider. Our process has not and will not change. We consider all relevant factors that might impact the discounted value of a company's future cash flows. We will invest when we believe that we can make informed estimates and judgments about those cash flows and when our estimate of intrinsic value provides a margin of safety relative to the current market price. If we are unable to make informed estimates of any factor, whether product success, government impact or other macro-economic forces; we will refrain from investing. We believe security selection through the independent valuation of businesses and the discipline to only purchase (short) securities selling at a discount (premium) to our estimate of intrinsic value are the keys to a successful long-term track record.

U.S. Non-Financial Corporations Cash (% of Total Assets)



Source: Strategas Research Partners

## Corporate Earnings and Economic News

All industry sectors rose in the third quarter with the cyclical sectors leading the way. The telecommunication and materials sectors were the best performers, while the consumer staples, financial and health care sector returns trailed the S&P 500 return. Corporate earnings reports were higher than expected in July led by the industrial, telecommunication and consumer discretionary sectors. In aggregate, mega capitalization companies also posted more positive earnings surprises than smaller capitalization companies.

Economic data was mixed in the third quarter. Inflation, as measured by the Consumer Price Index (CPI), remained muted, unemployment

*The views expressed are those of the portfolio managers as of September 30, 2010 and are subject to change. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice. Portfolio holdings are subject to change and will be made available at least monthly for download at [www.diamond-hill.com](http://www.diamond-hill.com), typically on the seventh (7th) business day following the most recent month ending date.*



# Small Cap Fund



## Portfolio Management



Tom Schindler, CFA  
Manager



Chris Welch, CFA  
Assistant Manager



Chris Bingaman, CFA  
Assistant Manager

The Fund increased 9.81% (Class A, without sales charge) in the third quarter, compared to an 11.29% increase in the Russell 2000 Index.

All sectors provided positive contribution to return during the quarter, with our holdings in the financials, consumer staples and industrials sectors providing the largest contribution.

Assured Guaranty Ltd., a bond insurer, provided the largest contribution to financial sector return in the third quarter following a significant decline in the second quarter. The second quarter decline primarily reflected a general fear of credit sensitive companies and a weaker than expected first quarter earnings report from the company. The stock rebounded in the third quarter after reporting stronger than expected second quarter earnings. Despite the rebound, Assured Guaranty's stock price performance year-to-date remains negative, reflecting continued fears regarding municipal debt. Specialty insurer Assurant, Inc. and insurer Old Republic International Corp. also provided significant contribution to financial sector return in the third quarter. Assurant reported much stronger than expected earnings and continued to repurchase its own shares at a rapid rate, while Old Republic's contribution to return reflected improved credit metrics for the mortgage guaranty industry.

Household products company Energizer Holdings, Inc. was the largest contributor to return in the consumer staples sector following a significant negative contribution to return in the second quarter due to concerns about a sluggish battery market and heightened competitive pressures. Energizer's stock surged in response to earnings estimates that exceeded the previous quarter by a wide margin. The sentiment

surrounding the stock also improved as fears of increased competition abated and expectations for margin improvement increased.

In the industrials sector, AirTran Holdings, Inc. was the largest contributor to return during the quarter, reflecting Southwest Airlines Co. offer to purchase the company for a price of \$7.25 - \$7.75 per share in cash and stock. AirTran's management and board of directors agreed to the offer, which is subject to shareholder and regulatory approval.

Oil and natural gas explorers Cimarex Energy Co. and Southwestern Energy Co. were modest detractors from return. Both companies have significant exposure to the North American natural gas business. The stocks declined during the quarter as the forward price of natural gas fell in response to continued high levels of horizontal drilling and increased natural gas supply.

During the quarter, we established new positions in children's apparel manufacturer Carter's, Inc., aftermarket aviation product and service supplier AAR Corp., airline operator Allegiant Travel Co. and consumer bank holding company City National Corp. Carter's stock price relative to our estimate of intrinsic value appeared attractive based on their dominant franchise, strong management team and opportunity for long-term growth. Investors are worried about high cotton prices, which we believe will subside over time, creating an attractive buying opportunity. AAR Corp. continues to capitalize on its economies of scale and increase market share at the expense of in-house service providers. The company has also benefited from its large and growing business with the military providing logistical support. As the Department of Defense becomes a larger share of AAR's revenue, their cash flow stream should be more stable than historically.

Allegiant Travel Co. is a well-capitalized airline that has earned relatively high margins and returns on capital through a differentiated business model that focuses on low-frequency flights from small markets to leisure destinations. City National Corp., which was eliminated from the portfolio in the second quarter, was repurchased as market pressures during the third quarter allowed us to once again

## Period & Average Annual Total Returns

As of September 30, 2010	Third Quarter	Year to Date	One Year	Three Years	Five Years	Since Inception (12/29/00)	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>							
Class A Shares	9.81%	10.28%	15.82%	0.28%	2.07%	10.86%	1.38%
Class C Shares	9.59%	9.64%	14.96%	-0.46%	1.30%	10.03%	2.13%
Class I Shares	9.89%	10.56%	16.26%	0.66%	2.47%	11.11%	1.02%
<b>BENCHMARK</b>							
Russell 2000 Index	11.29%	9.12%	13.35%	-4.29%	1.60%	4.87%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>							
Class A Shares	4.31%	4.77%	10.02%	-1.42%	1.03%	10.28%	1.38%
Class C Shares	8.59%	8.64%	13.96%	-0.46%	1.30%	10.03%	2.13%



# Small Cap Fund *(continued)*



purchase shares at an attractive discount to our estimate of intrinsic value.

Our positions in health care company inVentiv Health, Inc., consumer staples company American Italian Pasta Co. and insurer The Hanover Insurance Group, Inc. were eliminated during the

quarter. InVentiv's shares were taken private by Thomas H. Lee Partners for \$26 per share, and shares in American Italian Pasta were acquired by Ralcorp Holdings, Inc. at \$53 per share. The Hanover Insurance Group was sold as its price reached our estimate of intrinsic value.

## Mentioned Securities and Respective Weights as of September 30, 2010

AAR Corp.	1.0%	Assured Guaranty Ltd.	4.5%	inVentive Health, Inc.	~
AirTran Holdings, Inc.	1.4%	Carter's, Inc.	1.1%	Old Republic International Corp.	2.5%
Allegiant Travel Co.	0.9%	Cimarex Energy Co.	2.2%	Ralcorp Holdings, Inc.	1.5%
American Italian Pasta Co.	~	City National Corp.	0.8%	Southwestern Energy Co.	1.0%
Assurant, Inc.	4.0%	Energizer Holdings, Inc.	3.7%	The Hanover Insurance Group, Inc.	~

Mentioned securities not held in the Diamond Hill Small Cap Fund: Southwest Airlines Co.

The views expressed are those of the portfolio managers as of September 30, 2010, are subject to change and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice.

The Russell 2000 Index is a market-capitalization weighted index measuring performance of the smallest 2,000 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. 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.

**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. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the most recent month-end, within 7 business days, at [www.diamond-hill.com](http://www.diamond-hill.com). Performance returns assume reinvestment of all distributions. The total return figures for the Fund reflect the maximum sales charge applicable to each class. 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. 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.

Fund holdings and sector allocations are as of September 30, 2010 and are subject to change. ***There are specialized risks associated with small capitalization issues, such as market illiquidity and greater market volatility than large capitalization issues.***

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.

***An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other information about the Fund(s) can be found in the Fund's(s) prospectus or summary prospectus which can be obtained at [www.diamond-hill.com](http://www.diamond-hill.com) or by calling 888-226-5595. Please read the prospectus or summary prospectus carefully before investing. The Diamond Hill Funds are distributed by BHIL Distributors, Inc. (Member FINRA), an affiliated company. 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. Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.***

# Small-Mid Cap Fund



## Portfolio Management



Chris Welch, CFA  
Manager



Tom Schindler, CFA  
Assistant Manager



Chris Bingaman, CFA  
Assistant Manager

The Fund increased 10.54% (Class A, without sales charge) in the third quarter, compared to a 12.21% increase in the Russell 2500 Index.

All sectors provided positive contribution to return during the quarter, with our holdings in the financials, industrials and energy sectors providing the largest contribution.

Assured Guaranty Ltd., a bond insurer, provided the largest contribution to financial sector return in the third quarter following a significant decline in the second quarter. The second quarter decline primarily reflected a general fear of credit sensitive companies and a weaker than expected first quarter earnings report from the company. The stock rebounded in the third quarter after reporting stronger than expected second quarter earnings. Despite the rebound, Assured Guaranty's stock price performance year-to-date remains negative, reflecting continued fears regarding municipal debt. Specialty insurer Assurant, Inc. and insurer Old Republic International Corp. also provided significant contribution to financial sector return in the third quarter. Assurant reported much stronger than expected earnings and continued to repurchase its own shares at a rapid rate, while Old Republic's contribution to return reflected improved credit metrics for the mortgage guaranty industry.

In the industrials sector, Dover Corp., a diversified machinery company, was the largest contributor to return. Dover's revenue growth remained strong, albeit against easy year-over-year comparisons. Order growth suggests that revenue growth is sustainable in the near term. Additionally, margins have materially exceeded expectations resulting in profitability levels reaching the targeted range for normalized

earnings in this economic cycle. We believe that Dover's margins will increase over time.

Noble Energy, Inc. provided the largest contribution to return in the energy sector. With significant exposure to deepwater drilling in the Gulf of Mexico, Noble's stock price reversed most of its second quarter losses in response to indications that the restrictions on deepwater drilling may not be as prohibitive as investors initially assumed.

Oil and natural gas explorers Cimarex Energy Co. and Southwestern Energy Co. were modest detractors from return. Both companies have significant exposure to the North American natural gas business. The stocks declined during the quarter as the forward price of natural gas fell in response to continued high levels of horizontal drilling and increased natural gas supply.

During the quarter, we established new positions in children's apparel manufacturer Carter's, Inc. and community bank First Niagara Financial Group, Inc. Carter's stock price relative to our estimate of intrinsic value appeared attractive based on their dominant franchise, strong management team and opportunity for long-term growth. Investors are worried about high cotton prices, which we believe will subside over time, creating an attractive buying opportunity. Following recent capital raising activities, we believe First Niagara Financial Group is a survivor with great potential to grow their banking franchise.

Our positions in consumer staple companies American Italian Pasta Co. and Hain Celestial Group, Inc. and insurers The Hanover Insurance Group, Inc. and United Fire & Casualty Co. were eliminated during the quarter. Shares in American Italian Pasta were acquired by Ralcorp Holdings, Inc. at \$53 per share, and Hain shares were eliminated as their price reached our estimate of intrinsic value. Hain's shares increased sharply following the news that activist investor Carl Icahn had acquired a significant stake in the company. The Hanover Insurance Group was sold as its price reached our estimate of intrinsic value, and United Fire & Casualty Co. was sold to raise proceeds for a more attractive investment opportunity.

## Period & Average Annual Total Returns

As of September 30, 2010	Third Quarter	Year to Date	One Year	Three Years	Five Years	Since Inception (12/30/05)	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>							
Class A Shares	10.54%	9.78%	16.88%	1.45%	—	3.49%	1.33%
Class C Shares	10.30%	9.20%	16.05%	0.72%	—	2.76%	2.08%
Class I Shares	10.61%	10.07%	17.26%	1.83%	—	3.89%	0.97%
<b>BENCHMARK</b>							
Russell 2500 Index	12.21%	10.32%	15.92%	-3.57%	—	2.10%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>							
Class A Shares	5.06%	4.28%	10.98%	-0.27%	—	2.37%	1.33%
Class C Shares	9.30%	8.20%	15.05%	0.72%	—	2.76%	2.08%



# Small-Mid Cap Fund *(continued)*



## Mentioned Securities and Respective Weights as of September 30, 2010

American Italian Pasta Co.	~	Dover Corp.	3.6%	Southwestern Energy Co.	1.4%
Assurant, Inc.	2.5%	First Niagara Financial Group, Inc.	0.5%	The Hanover Insurance Group, Inc.	~
Assured Guaranty Ltd.	2.7%	Hain Celestial Group, Inc.	~	United Fire & Casualty Co.	~
Carter's, Inc.	0.8%	Noble Energy, Inc.	3.9%		
Cimarex Energy Co.	3.2%	Old Republic International Corp.	3.2%		

Mentioned securities not held in the Diamond Hill Small-Mid Cap Fund: Ralcorp Holdings, Inc.

The views expressed are those of the portfolio managers as of September 30, 2010, are subject to change and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice.

The Russell 2500 Index is a market-capitalization weighted index measuring performance of the smallest 2,500 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. 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.

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charges and for fees applicable to Class C shares, which includes a 1.00% 12b-1 fee. 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.

Fund holdings and sector allocations are as of September 30, 2010 and are subject to change. ***There are specialized risks associated with small capitalization issues, such as market illiquidity and greater market volatility than large capitalization issues.***

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.

***An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other information about the Fund(s) can be found in the Fund's(s) prospectus or summary prospectus which can be obtained at [www.diamond-hill.com](http://www.diamond-hill.com) or by calling 888-226-5595. Please read the prospectus or summary prospectus carefully before investing. The Diamond Hill Funds are distributed by BHIL Distributors, Inc. (Member FINRA), an affiliated company. 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. Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.***



# Large Cap Fund



## Portfolio Management



**Chuck Bath, CFA**  
Manager



**Bill Dierker, CFA**  
Assistant Manager



**Chris Welch, CFA**  
Assistant Manager

The Fund increased 9.41% (Class A, without sales charge) in the third quarter, compared to an 11.55% increase in the Russell 1000 Index.

During the quarter, all sectors provided a positive contribution to return with our holdings in the energy, health care and industrial sectors providing the largest positive contributions to return.

In the energy sector, oil and gas explorer Anadarko Petroleum Corp. reversed its second quarter underperformance as a result of a lower projected cost for the Gulf of Mexico oil spill cleanup and an increasing likelihood that British Petroleum will pay a substantial portion of the oil spill-related costs. Additionally, it appears that the restrictions on deepwater drilling will not be as prohibitive as investors initially assumed, which provided support to Anadarko and Apache Corp. stock prices during the quarter.

In the healthcare sector, Pfizer, Inc. and UnitedHealth Group, Inc. were the largest contributors to return. Drug maker Pfizer reported good second quarter results backed by cost controls and strong operating margins. The company's management also indicated its willingness to gradually increase its dividend payout ratio closer to the industry average over the next three years, with the next dividend increase coming in December 2010. Managed care company UnitedHealth reported strong second quarter results and raised its full-year earnings guidance. The company remains the largest and the most diversified provider of healthcare insurance in the U.S. and

has prudently deployed its ample cash flow through share repurchases and opportunistic acquisitions.

In the industrials sector, diversified machinery companies Dover Corp. and Parker Hannifin Corp. provided the largest contribution to return. Dover's revenue growth remained strong, albeit against easy year-over-year comparisons. Order growth suggests that revenue growth is sustainable in the near term. Additionally, margins have materially exceeded expectations resulting in profitability levels reaching the targeted range for normalized earnings in this economic cycle. We believe that Dover's margins will increase over time. Similar to Dover, Parker Hannifin's performance continued to exceed expectations. Revenue growth, orders and margins all support continued strong near term operating performance. Parker Hannifin's international business performed surprisingly well given concerns over the European economy, and the aerospace business has shown unexpected strength in revenue growth, in contrast to other companies with exposure to the aerospace sector.

Other top contributors to performance included semiconductor equipment maker KLA-Tencor Corp. and chemical company Air Products & Chemicals, Inc. KLA-Tencor Corp. announced good second quarter earnings, which included strong operating leverage and very strong orders. Air Products' stock price benefited from an attractive valuation, continued strong earnings and a positive outlook for the successful completion of their attempted acquisition of Airgas, Inc.

During the quarter, we initiated a position in insurer Chubb Corp. using the proceeds from the elimination of Allstate Corp. from the portfolio. Chubb is one of the highest quality property and casualty insurers with very strong market positions in difficult to underwrite lines of business, including Directors and Officers liability and high net worth homeowners insurance. Chubb has consistently reported better underwriting performance relative to its peers over the business cycle. We believe Chubb has the potential to grow faster than the

## Period & Average Annual Total Returns

As of September 30, 2010	Third Quarter	Year to Date	One Year	Three Years	Five Years	Since Inception (6/29/01)	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>							
<i>Class A Shares</i>	9.41%	-0.15%	7.28%	-5.64%	1.19%	4.78%	1.16%
<i>Class C Shares</i>	9.18%	-0.76%	6.43%	-6.37%	0.42%	3.96%	1.91%
<i>Class I Shares</i>	9.54%	0.15%	7.70%	-5.28%	1.59%	5.03%	0.80%
<b>BENCHMARK</b>							
<i>Russell 1000 Index</i>	11.55%	4.41%	10.75%	-6.79%	0.86%	1.61%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>							
<i>Class A Shares</i>	3.98%	-5.16%	1.90%	-7.25%	0.15%	4.20%	1.16%
<i>Class C Shares</i>	8.18%	-1.75%	5.43%	-6.37%	0.42%	3.96%	1.91%



# Large Cap Fund *(continued)*



market when P&C prices begin to improve. We also initiated a position in Linear Technology Corp., a high-performance analog semiconductor manufacturer. Linear Technology has a very attractive business model and has navigated its business well over the years. We believe the stock appears attractively valued in light of excessive fears about a potential downturn in the semiconductor industry cycle. Finally, we established a new position in biotechnology company Amgen, Inc. based on an attractive valuation and the potential for

positive pipeline developments over the medium to long term. The company has established market-leading drug franchises in the areas of blood disorders and immunology.

We eliminated our position in computer maker Dell, Inc. to raise proceeds to purchase Linear Technology.

## Mentioned Securities and Respective Weights as of September 30, 2010

Air Products & Chemicals, Inc.	2.2%	Chubb Corp.	1.0%	Parker Hannifin Corp.	2.1%
Allstate Corp.	-	Dell, Inc.	-	Pfizer, Inc.	3.2%
Amgen, Inc.	0.5%	Dover Corp.	2.1%	UnitedHealth Group, Inc.	2.2%
Anadarko Petroleum Corp.	3.7%	KLA-Tencor Corp.	2.9%		
Apache Corp.	3.7%	Linear Technology Corp.	1.0%		

Mentioned securities not held in the Diamond Hill Large Cap Fund: Airgas, Inc. & British Petroleum

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1.00% 12b-1 fee. 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.

Fund holdings and sector allocations are as of September 30, 2010 and are subject to change. Because this Fund expects to hold a concentrated portfolio of a limited number of securities, a decline in the value of these investments would cause the Fund's overall value to decline to a greater degree than a less concentrated portfolio.

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.

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# Select Fund



## Portfolio Management



**Bill Dierker, CFA**  
Manager



**Chuck Bath, CFA**  
Assistant Manager



**Chris Welch, CFA**  
Assistant Manager

The Fund increased 9.00% (Class A, without sales charge) in the third quarter, compared to an 11.53% increase in the Russell 3000 Index.

During the quarter, all sectors provided positive contribution to return with our holdings in the industrials, health care and energy sectors providing the largest positive contributions to return.

In the industrials sector, our positions in Dover Corp., a diversified machinery company, and AirTran Holdings, Inc., a regional airline operator, provided the largest contribution to return. Dover's revenue growth remained strong, albeit against easy year-over-year comparisons. Order growth suggests that revenue growth is sustainable in the near term. Additionally, margins have materially exceeded expectations resulting in profitability levels reaching the targeted range for normalized earnings in this economic cycle. We believe that Dover's margins will increase over time. AirTran's stock increased following Southwest Airlines Co. offer to purchase the company for a price of \$7.25 - \$7.75 per share in cash and stock. AirTran's management and board of directors agreed to the offer which is subject to shareholder and regulatory approval.

In the healthcare sector, Pfizer, Inc. and UnitedHealth Group, Inc. were the largest contributors to return. Drug maker Pfizer reported good second quarter results backed by cost controls and strong operating margins. The company's management also indicated its

willingness to gradually increase its dividend payout ratio closer to the industry average over the next three years, with the next dividend increase coming in December 2010. Managed care company UnitedHealth reported strong second quarter results and raised its full-year earnings guidance. The company remains the largest and most diversified provider of healthcare insurance in the U.S. and has prudently deployed its ample cash flow through share repurchases and opportunistic acquisitions. Medical device maker Medtronic, Inc. had a disappointing quarter as the company reported weaker results in its two largest segments. Medtronic's management noted lower healthcare utilization by consumers, impacted by higher deductibles, expiration of COBRA benefits, pricing pressure and cost cutting by hospitals.

In the energy sector, oil and gas explorer Anadarko Petroleum Corp. reversed its second quarter underperformance as a result of a lower projected cost for the Gulf of Mexico oil spill cleanup and an increasing likelihood that British Petroleum will pay a substantial portion of the oil spill-related costs. Additionally, it appears that the restrictions on deepwater drilling will not be as prohibitive as investors initially assumed, which provided support to Anadarko and Apache Corp. stock prices during the quarter. Oil and natural gas explorer Cimarex Energy Co. and oil and natural gas exploration and equipment provider Exterran Holdings, Inc. detracted from return. Both companies have significant exposure to the North American natural gas business. The stocks declined during the quarter as the forward price of natural gas fell in response to continued high levels of horizontal drilling and increased natural gas supply.

Other top contributors to performance included chemical company Air Products & Chemicals, Inc., insurer Assured Guaranty Ltd. and semiconductor equipment maker KLA-Tencor Corp. Air Products' stock price benefited from an attractive valuation, continued strong earnings and a positive outlook for the successful completion of their attempted acquisition of Airgas, Inc. Assured Guaranty's stock price

## Period & Average Annual Total Returns

As of September 30, 2010	Third Quarter	Year to Date	One Year	Three Years	Five Years	Since Inception (12/30/05)	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>							
<i>Class A Shares</i>	9.00%	0.67%	9.27%	-4.39%	—	1.56%	1.27%
<i>Class C Shares</i>	8.76%	0.00%	8.36%	-5.15%	—	0.82%	2.02%
<i>Class I Shares</i>	9.11%	0.89%	9.64%	-4.04%	—	1.94%	0.91%
<b>BENCHMARK</b>							
<i>Russell 3000 Index</i>	11.53%	4.78%	10.96%	-6.59%	—	0.54%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>							
<i>Class A Shares</i>	3.53%	-4.32%	3.77%	-6.02%	—	0.46%	1.27%
<i>Class C Shares</i>	7.76%	-1.00%	7.36%	-5.15%	—	0.82%	2.02%



# Select Fund *(continued)*



increased in the third quarter after reporting stronger than expected second quarter earnings. KLA-Tencor Corp. also announced good second quarter earnings, which included strong operating leverage and very strong orders.

There were no new or eliminated positions in the third quarter.

## Mentioned Securities and Respective Weights as of September 30, 2010

Air Products & Chemicals, Inc.	2.9%	Assured Guaranty Ltd.	2.1%	KLA-Tencor Corp.	2.1%
AirTran Holdings, Inc.	1.6%	Cimarex Energy Co.	2.2%	Medtronic, Inc.	2.8%
Anadarko Petroleum Corp.	2.3%	Dover Corp.	3.4%	Pfizer, Inc.	2.7%
Apache Corp.	3.7%	Exterran Holdings, Inc.	1.5%	UnitedHealth Group, Inc.	2.9%

Mentioned securities not held in the Diamond Hill Select Fund: Airgas, Inc., British Petroleum & Southwest Airlines Co.

The views expressed are those of the portfolio managers as of September 30, 2010, are subject to change and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice.

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. 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.

**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. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the most recent month-end, within 7 business days, at [www.diamond-hill.com](http://www.diamond-hill.com). Performance returns assume reinvestment of all distributions. The total return figures for the Fund reflect the maximum sales charge applicable to each class. 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. 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.

Fund holdings and sector allocations are as of September 30, 2010 and are subject to change. Because this Fund expects to hold a concentrated portfolio of a limited number of securities, a decline in the value of these investments would cause the Fund's overall value to decline to a greater degree than a less concentrated portfolio.

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.

***An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other information about the Fund(s) can be found in the Fund's(s) prospectus or summary prospectus which can be obtained at [www.diamond-hill.com](http://www.diamond-hill.com) or by calling 888-226-5595. Please read the prospectus or summary prospectus carefully before investing. The Diamond Hill Funds are distributed by BHL Distributors, Inc. (Member FINRA), an affiliated company. 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. Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.***

# Long-Short Fund

## Portfolio Management



**Chuck Bath, CFA**  
Co-Manager



**Ric Dillon, CFA**  
Co-Manager



**Chris Bingham, CFA**  
Assistant Manager

The Fund increased 5.22% (Class A, without sales charge) in the third quarter, compared with an 11.55% increase in the long-only Russell 1000 Index.

In the long portfolio, all sectors provided positive contribution to return with our positions in the energy and industrials sectors providing the largest positive contribution to return.

In the energy sector, oil and gas explorer Anadarko Petroleum Corp. reversed its second quarter underperformance as a result of a lower projected cost for the Gulf of Mexico oil spill cleanup and an increasing likelihood that British Petroleum will pay a substantial portion of the oil spill-related costs. Additionally, it appears that the restrictions on deepwater drilling will not be as prohibitive as investors initially assumed, which provided support to Anadarko and Apache Corp. stock prices during the quarter. Oil and natural gas explorer Cimarex Energy Co. detracted from return. Cimarex has significant exposure to the North American natural gas business. The stock declined during the quarter as the forward price of natural gas fell in response to continued high levels of horizontal drilling and increased natural gas supply.

In the industrials sector, diversified machinery companies Dover Corp. and Parker Hannifin Corp. provided the largest contribution to return. Dover's revenue growth remained strong, albeit against easy year-over-year comparisons. Order growth suggests that revenue growth is sustainable in the near term. Additionally, margins have materially exceeded expectations resulting in profitability levels reaching the targeted range for normalized earnings in this economic cycle. We believe that Dover's margins will increase over time. Similar to Dover,

Parker Hannifin's performance continued to exceed expectations. Revenue growth, orders and margins all support continued strong near term operating performance. Parker Hannifin's international business performed surprisingly well given concerns over the European economy, and the aerospace business has shown unexpected strength in revenue growth, in contrast to other companies with exposure to the aerospace sector. Raytheon Co., an aerospace and defense company, detracted from return due to concerns over reduced government spending, a cancelled contract with the U.K. and the company's underfunded pension plan.

Other top contributors to performance included semiconductor equipment maker KLA-Tencor Corp. and chemical company Air Products & Chemicals, Inc. KLA-Tencor Corp. announced good second quarter earnings, which included strong operating leverage and very strong orders. Air Products' stock price benefited from an attractive valuation, continued strong earnings and a positive outlook for the successful completion of their attempted acquisition of Airgas, Inc. Medical device company, Medtronic, Inc., consumer staples company ConAgra Foods, Inc. and U.S. Bancorp were modest detractors from return.

In the short portfolio, all sectors except healthcare provided negative contribution to return. Short positions in the consumer discretionary sector provided the largest negative contribution to return. Specialty retailer Tractor Supply Co., cruise line operator Royal Caribbean Cruises Ltd., department store operator Macy's, Inc. and online movie rental company Netflix, Inc., were the largest detractors from return. Information technology company Salesforce.com, Inc. also detracted from return. The company reported strong growth as their cloud-based software continued to see strong demand. Our holdings in the for-profit education company Career Education Corp., healthcare service providers Covance, Inc. and Omnicare, Inc., and teen retailer Gymboree Corp. were the largest positive contributors to performance.

During the quarter, we initiated a long position in Amgen, Inc. due to its attractive valuation and potential for positive pipeline developments

## Period & Average Annual Total Returns

As of September 30, 2010	Third Quarter	Year to Date	One Year	Three Years	Five Years	Ten Years	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>							
<i>Class A Shares</i>	5.22%	-4.84%	0.98%	-4.75%	1.30%	5.38%	1.84% <sup>1</sup>
<i>Class C Shares</i>	5.07%	-5.34%	0.20%	-5.48%	0.54%	4.58%	2.59% <sup>1</sup>
<i>Class I Shares</i>	5.31%	-4.57%	1.36%	-4.39%	1.70%	5.62%	1.48% <sup>1</sup>
<b>BENCHMARKS</b>							
<i>Russell 1000 Index</i>	11.55%	4.41%	10.75%	-6.79%	0.86%	-0.21%	—
<i>50% Russell 1000 Index / 50% BofA ML US T-Bill 0-3 Month Index</i>	5.83%	2.62%	5.76%	-2.35%	2.09%	1.46%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>							
<i>Class A Shares</i>	-0.06%	-9.61%	-4.08%	-6.36%	0.26%	4.84%	1.84%
<i>Class C Shares</i>	4.07%	-6.29%	-0.80%	-5.48%	0.54%	4.58%	2.59%



# Long-Short Fund *(continued)*



over the medium-to-long term. We eliminated our long positions in computer maker Dell, Inc. and regional airline operator AirTran Holdings, Inc. Both were sold to increase cash levels and reduce our net long position. AirTran's stock price increased following Southwest Airlines Co. offer to purchase the company for a price of \$7.25 - \$7.75 per share in cash and stock.

In the short portfolio, we established a short position in consumer

products company Colgate-Palmolive Co. due to increasing margin pressure from rising raw material costs and higher levels of competition. We re-established a short position in Dean Foods Co. as the shares rallied. We previously covered a short position in Dean Foods as its price approached our estimate of intrinsic value.

We covered numerous short positions as their prices reached our estimates of intrinsic value.

## Mentioned Securities and Respective Weights as of September 30, 2010

Air Products & Chemicals, Inc.	2.3%	Covance, Inc.	-1.1%	Omnicare, Inc.	-0.7%
AirTran Holdings, Inc.	~	Dean Foods Co.	-0.1%	Parker Hannifin Corp.	2.4%
Amgen, Inc.	0.5%	Dell, Inc.	~	Raytheon Co.	1.3%
Anadarko Petroleum Corp.	3.9%	Dover Corp.	2.6%	Royal Caribbean Cruises Ltd.	-1.7%
Apache Corp.	3.9%	Gymboree Corp.	-0.3%	Salesforce.com, Inc.	-1.5%
Career Education Corp.	~	KLA-Tencor Corp.	2.6%	Tractor Supply Co.	-2.0%
Cimarex Energy Co.	1.1%	Macy's, Inc.	-1.8%	U.S. Bancorp	1.3%
Colgate-Palmolive Co.	-1.5%	Medtronic, Inc.	2.6%		
ConAgra Foods, Inc.	2.1%	Netflix, Inc.	-0.5%		

Mentioned securities not held in the Diamond Hill Long-Short Fund: Airgas, Inc., British Petroleum & Southwest Airlines Co.

The views expressed are those of the portfolio managers as of September 30, 2010, are subject to change and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice.

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.

**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. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the most recent month-end, within 7 business days, at [www.diamond-hill.com](http://www.diamond-hill.com). Performance returns assume reinvestment of all distributions. The total return figures for the Fund reflect the maximum sales charge applicable to each class. 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. 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.

Fund holdings and sector allocations are as of September 30, 2010 and are subject to change. The Fund uses short selling which incurs significant additional risk. Theoretically, stocks sold short have unlimited risk.

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.

***An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other information about the Fund(s) can be found in the Fund's(s) prospectus or summary prospectus which can be obtained at [www.diamond-hill.com](http://www.diamond-hill.com) or by calling 888-226-5595. Please read the prospectus or summary prospectus carefully before investing. The Diamond Hill Funds are distributed by BHL Distributors, Inc. (Member FINRA), an affiliated company. 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. Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.***

<sup>1</sup>Includes 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.

# Financial Long-Short Fund



## Portfolio Management



**Chris Bingaman, CFA**  
Manager



**Austin Hawley, CFA**  
Assistant Manager



**John Loesch, CFA**  
Assistant Manager

The Fund increased 5.69% (Class A, without sales charge) in the third quarter, compared to a 4.95% increase in the S&P 1500 SuperComposite Financials Index.

The financial sector posted positive returns on an absolute basis as concerns over the European debt crisis and financial regulatory reform abated. On a relative basis, the financial sector underperformed the broader market indices. In particular, the release of new international credit standards and additional clarity around capital requirements was not enough to advance the large domestic bank stocks as fears of margin pressure and pending regulatory reform continued to weigh on those companies.

During the quarter, our positions in the insurance and financial services industries provided the largest contribution to return. Within the insurance industry, Assured Guaranty Ltd. and XL Group PLC were the largest contributors. Assured Guaranty Ltd., a bond insurer, provided positive contribution to return in the third quarter following a significant decline in the second quarter. The second quarter decline primarily reflected a general fear of credit sensitive companies and a weaker than expected first quarter earnings report from the company. The stock rebounded in the third quarter after reporting stronger than expected second quarter earnings. Despite the rebound, Assured Guaranty's stock price performance year-to-date remains negative, reflecting continued fears regarding municipal debt. XL Group appreciated during the quarter, reflecting a rebound in credit sensitive stocks, as well as a lack of hurricane activity which aided XL Group's earnings. Within the financial services industry, JPMorgan

Chase & Co. and Bank of New York Mellon Corp. were the largest positive contributors. JPMorgan increased during the quarter as the company continued to signal easing credit pressures in its credit card portfolio. Investors also responded positively to the additional clarity around expected capital requirements. Bank of New York is relatively less affected by the industry pressure on net interest income growth, as its business is more dependent on fee income.

Wilmington Trust Corp. and our preferred equity holding of iStar Financial, Inc. detracted from return in the third quarter. Wilmington Trust's shares declined following their second quarter earnings report, which showed worse than expected deterioration in credit quality due to commercial real estate and construction credit exposure. In addition, the company announced the unexpected retirement of its CEO. Both announcements cast a pall of uncertainty over Wilmington's shares as investors waited for more clarity on credit improvement and management's future strategic direction. iStar's preferred shares suffered as the company continued to battle stubbornly high levels of nonperforming loans and faced looming debt maturities. Other detractors from return included U.S. Bancorp, Bank of America Corp. and PNC Financial Services Group, Inc.

In the short portfolio, our position in Home BancShares, Inc. depreciated during the quarter, reflecting investor fears of a double-dip recession. There were no material detractors from performance in the short portfolio.

New positions in the long portfolio included City National Corp. and Chubb Corp. City National Corp., which was eliminated from the portfolio in the second quarter, was repurchased as market pressures during the third quarter allowed us to once again purchase shares at an attractive discount to our estimate of intrinsic value. Chubb is one of the highest quality property and casualty insurers with very strong market positions in difficult to underwrite lines of business, including Directors and Officers liability and high net worth homeowners insurance. Chubb has consistently reported better underwriting

## Period & Average Annual Total Returns

As of September 30, 2010	Third Quarter	Year to Date	One Year	Three Years	Five Years	Ten Years	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>							
<i>Class A Shares</i>	5.69%	6.90%	7.28%	-14.36%	-5.85%	6.36%	1.76% <sup>1</sup>
<i>Class C Shares</i>	5.46%	6.31%	6.45%	-15.05%	-6.58%	5.61%	2.51% <sup>1</sup>
<i>Class I Shares</i>	5.71%	7.14%	7.69%	-14.01%	-5.56%	6.53%	1.40% <sup>1</sup>
<b>BENCHMARK</b>							
<i>S&amp;P 1500 SuperComposite Financials Index</i>	4.95%	1.76%	-0.46%	-21.45%	-10.03%	-3.69%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>							
<i>Class A Shares</i>	0.36%	1.55%	1.96%	-15.82%	-6.81%	5.82%	1.76%
<i>Class C Shares</i>	4.46%	5.31%	5.45%	-15.05%	-6.58%	5.61%	2.51%



# Financial Long-Short Fund *(continued)*



performance relative to its peers over the business cycle. We believe Chubb has the potential to grow faster than the market when P&C prices begin to improve. Eliminations from the long portfolio included two preferred equity holdings, as well as a Regions Financial Corp. bond. Additionally, our positions in The Hanover Insurance Group, Inc., Mid-America Apartment Communities, Inc. and First American Financial Corp. were eliminated as their prices reached our estimates of intrinsic value.

We initiated short positions in two small capitalization banks. United Bankshares, Inc. and Eagle Bancorp, Inc. both appear moderately overpriced given the combination of above average real estate exposures along with relatively high valuations. Additionally, we covered our position in KBW, Inc. as the company's quarterly earnings increased more slowly than expected, and its stock price declined to our estimate of intrinsic value.

## Mentioned Securities and Respective Weights as of September 30, 2010

Assured Guaranty Ltd.	4.7%	Home BancShares, Inc.	-1.1%	The Hanover Insurance Group, Inc.	~
Bank of America Corp.	3.2%	iStar Financial, Inc. Pfd. Series F 7.8%	1.0%	U.S. Bancorp	3.7%
Bank of New York Mellon Corp.	3.3%	JPMorgan Chase & Co.	6.6%	United Bankshares, Inc.	-0.5%
Chubb Corp.	0.8%	KBW, Inc.	~	Wilmington Trust Corp.	1.3%
City National Corp.	0.8%	Mid-America Apartment Communities, Inc.	~	XL Group PLC	3.1%
Eagle Bancorp, Inc.	-0.5%	PNC Financial Services Group, Inc.	3.4%		
First American Financial Corp.	~	Regions Financial Corp.	~		

The views expressed are those of the portfolio managers as of September 30, 2010, are subject to change and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice.

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 1500 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.

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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.

Fund holdings and sector allocations are as of September 30, 2010 and are subject to change. The Fund uses short selling which incurs significant additional risk. Theoretically, stocks sold short have unlimited risk.

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.

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<sup>1</sup> Includes 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.

# Strategic Income Fund



## Portfolio Management



**Bill Zox, CFA**  
Manager



**Chris Bingaman, CFA**  
Assistant Manager



**Austin Hawley, CFA**  
Assistant Manager

The Fund generated a 4.56% total return (Class A, without sales charge) in the third quarter, compared to a 2.53% 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 an 11.82% total return, compared to 7.97% for the Index. For the trailing five-year period, the Fund generated a total return of 5.63% per year, compared to 6.30% per year for the Index and 0.96% per year for U.S. stocks, as measured by the Russell 3000 Index.

The 10-year Treasury yield declined 42 basis points during the quarter from 2.93% to 2.51%, while the two-year Treasury yield declined 18 basis points from 0.61% to 0.43%. The option-adjusted spread of the Merrill Lynch U.S. Corporates, BBB Rated Index narrowed from 261 basis points to 234 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 Merrill Lynch, U.S. High Yield Master II Index narrowed from 705 basis points to 623 basis points. This spread was under 500 basis points from late-2003 until the fourth quarter of 2007.

The concerns that disrupted the risk markets in May – the sovereign debt crisis in Europe and a potential slowdown in China – receded over the course of the third quarter. In contrast, U.S. economic growth slowed and the prospect of a shift to a self-sustaining economic recovery dimmed. While the future course of fiscal policy is highly uncertain, the Federal Reserve stepped into the breach. At its August 10, 2010 meeting, the Fed announced that it would reinvest principal payments from agency debt and agency mortgage-backed securities in longer-term Treasuries. Then, on August 27, 2010, Chairman Bernanke delivered a speech at Jackson Hole paving the way for another round of quantitative easing (QE2) whereby the Fed would further expand its balance sheet most likely by purchasing more Treasuries. Recent comments from Fed officials have led many market participants to expect that QE2 will be announced at the conclusion of the next Fed meeting on November 3, 2010.

Thus far, the reaction of market participants to these developments has been to bid up the price of many assets – stocks, corporate bonds, government bonds, commodities – with the notable exceptions of the U.S. dollar and residential real estate. At the macro level, the important issues are the likely costs and benefits of this policy and whether any net benefits have been fully discounted or over-discounted in asset prices. As we consider these issues, our approach is to seek attractive current income in the corporate bond market while maintaining portfolio duration of just below three.

## Period & Average Annual Total Returns

As of September 30, 2010	Third Quarter	Year to Date	One Year	Three Years	Five Years	Since Inception (9/30/02)	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>							
<i>Class A Shares</i>	4.56%	11.82%	15.94%	6.06%	5.63%	7.88%	1.05%
<i>Class C Shares</i>	4.46%	11.21%	15.21%	5.31%	4.86%	7.16%	1.80%
<i>Class I Shares</i>	4.75%	12.26%	16.50%	6.52%	6.08%	8.20%	0.69%
<b>BENCHMARK</b>							
<i>BofA ML US Corporate, Government, &amp; Mortgage Index</i>	2.53%	7.97%	8.00%	7.57%	6.30%	5.44%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>							
<i>Class A Shares</i>	0.93%	7.89%	11.89%	4.81%	4.87%	7.41%	1.05%
<i>Class C Shares</i>	3.46%	10.21%	14.21%	5.31%	4.86%	7.16%	1.80%



# Strategic Income Fund *(continued)*

DIAMOND HILL®  
funds

The views expressed are those of the portfolio managers as of September 30, 2010, are subject to change and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of results, or investment advice.

The Bank of America 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 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. 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. Unlike mutual funds, the index does not incur expenses. If expenses were deducted, the actual returns of this index would be lower. 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.

**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. The Fund's current performance may be lower or higher than the performance data quoted.

Investors may obtain performance information current to the most recent month-end, within 7 business days, at [www.diamond-hill.com](http://www.diamond-hill.com). Performance returns assume reinvestment of all distributions. The total return figures for the Fund reflect the maximum sales charge applicable to each class. 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. 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.

Fund holdings and sector allocations are as of September 30, 2010 and are subject to change. **The value of fixed-income securities varies inversely with interest rates; that is, as interest rates rise, the market value of fixed-income securities will decline. Lower quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.**

The maximum sales charge for A shares is 3.50%; 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.

***An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other information about the Fund(s) can be found in the Fund's(s) prospectus or summary prospectus which can be obtained at [www.diamond-hill.com](http://www.diamond-hill.com) or by calling 888-226-5595. Please read the prospectus or summary prospectus carefully before investing. The Diamond Hill Funds are distributed by BHIL Distributors, Inc. (Member FINRA), an affiliated company. 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. Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.***

# Performance Update

Figures do not reflect sales charges. If they did, the returns would be lower.

CLASSIFICATIONS

Ticker Symbol	CUSIP Number	Overall Morningstar Rating <sup>SM</sup> Class A with Load/ Class A Load-Waived <sup>1</sup> # funds in category	Period & Average Annual Total Returns as of September 30, 2010							FEES & EXPENSES						Lipper	Morningstar
			Third Quarter	Year to Date	One Year	Three Years	Five Years	Ten Years or Life of Fund <sup>†</sup>	Annualized Standard Deviation <sup>2</sup>	Maximum Front-End Sales Charge	Contingent Deferred Sales Charge	Management Fee	Distribution Fee (12b-1)	Other Expenses	Total Expense Ratio		

SMALL CAP <sup>1</sup> (Inception Date 12/29/00)																	
Class A	DHSCX	25264S304	★★★★ /	9.81%	10.28%	15.82%	0.28%	2.07%	10.86%	19.51%	5.00%	None	0.80%	0.25%	0.33%	1.38%	Small-Cap Value
Class C	DHSMX	25264K103	★★★★	9.59%	9.64%	14.96%	-0.46%	1.30%	10.03%	19.49%	None	1.00%	0.80%	1.00%	0.33%	2.13%	
Class I	DHSIX	25264S858	310 funds Weighted average of 3- and 5-year risk-adjusted returns.	9.89%	10.56%	16.26%	0.66%	2.47%	11.11%	19.53%	None	None	0.80%	None	0.22%	1.02%	
Benchmark	Russell 2000 Index			11.29%	9.12%	13.35%	-4.29%	1.60%	4.87%	22.91%							

SMALL-MID CAP <sup>1</sup> (Inception Date 12/30/05)																	
Class A	DHMAX	25264S817	★★★★ /	10.54%	9.78%	16.88%	1.45%	—	3.49%	22.25%	5.00%	None	0.75%	0.25%	0.33%	1.33%	Mid-Cap Value
Class C	DHMCX	25264S791	★★★★	10.30%	9.20%	16.05%	0.72%	—	2.76%	22.24%	None	1.00%	0.75%	1.00%	0.33%	2.08%	
Class I	DHMIX	25264S783	349 funds Based on 3 year risk-adjusted returns.	10.61%	10.07%	17.26%	1.83%	—	3.89%	22.25%	None	None	0.75%	None	0.22%	0.97%	
Benchmark	Russell 2500 Index			12.21%	10.32%	15.92%	-3.57%	—	2.10%	22.36%							

LARGE CAP (Inception Date 6/29/01)																	
Class A	DHLAX	25264S502	★★★★ /	9.41%	-0.15%	7.28%	-5.64%	1.19%	4.78%	17.18%	5.00%	None	0.60%	0.25%	0.31%	1.16%	Large-Cap Value
Class C	DHLCX	25264S601	★★★★	9.18%	-0.76%	6.43%	-6.37%	0.42%	3.96%	17.18%	None	1.00%	0.60%	1.00%	0.31%	1.91%	
Class I	DHLRX	25264S841	1,127 funds Weighted average of 3- and 5-year risk-adjusted returns.	9.54%	0.15%	7.70%	-5.28%	1.59%	5.03%	17.20%	None	None	0.60%	None	0.20%	0.80%	
Benchmark	Russell 1000 Index			11.55%	4.41%	10.75%	-6.79%	0.86%	1.61%	17.95%							

SELECT (Inception Date 12/30/05)																	
Class A	DHTAX	25264S775	★★★★ /	9.00%	0.67%	9.27%	-4.39%	—	1.56%	17.90%	5.00%	None	0.70%	0.25%	0.32%	1.27%	Large-Cap Value
Class C	DHTCX	25264S767	★★★★	8.76%	0.00%	8.36%	-5.15%	—	0.82%	17.87%	None	1.00%	0.70%	1.00%	0.32%	2.02%	
Class I	DHLTX	25264S759	1,127 funds Based on 3 year risk-adjusted returns.	9.11%	0.89%	9.64%	-4.04%	—	1.94%	17.87%	None	None	0.70%	None	0.21%	0.91%	
Benchmark	Russell 3000 Index			11.53%	4.78%	10.96%	-6.59%	—	0.54%	18.62%							

LONG-SHORT <sup>2</sup> (Inception Date 6/30/00)																	
Class A	DIAMX	25264S403	★★★★ /	5.22%	-4.84%	0.98%	-4.75%	1.30%	5.38%	12.18%	5.00%	None	0.90%	0.25%	0.69%	1.84%	Long-Short
Class C	DHFCX	25264E107	★★★★	5.07%	-5.34%	0.20%	-5.48%	0.54%	4.58%	12.17%	None	1.00%	0.90%	1.00%	0.69%	2.59%	
Class I	DHLSX	25264S833	84 funds Weighted average of 3-, 5-, and 10-year risk-adjusted returns.	5.31%	-4.57%	1.36%	-4.39%	1.70%	5.62%	12.18%	None	None	0.90%	None	0.58%	1.48%	
Benchmarks	Russell 1000 Index			11.55%	4.41%	10.75%	-6.79%	0.86%	-0.21%	17.95%							
	50% Russell 1000 Index / 50% BofA ML US T-Bill 0-3 Mo. Index			5.83%	2.62%	5.76%	-2.35%	2.09%	1.46%	8.98%							

FINANCIAL LONG-SHORT <sup>2</sup> (Inception Date 8/1/97)																	
Class A	BANCX	25264S106	★★★★ /	5.69%	6.90%	7.28%	-14.36%	-5.85%	6.36%	26.93%	5.00%	None	1.00%	0.25%	0.51%	1.76%	Specialty-Financial
Class C	BSGCX	25264S205	★★★★	5.46%	6.31%	6.45%	-15.05%	-6.58%	5.61%	26.94%	None	1.00%	1.00%	1.00%	0.51%	2.51%	
Class I	DHFSX	25264S825	109 funds Weighted average of 3-, 5-, and 10-year risk-adjusted returns.	5.71%	7.14%	7.69%	-14.01%	-5.56%	6.53%	26.93%	None	None	1.00%	None	0.40%	1.40%	
Benchmark	S&P 1500 SuperComposite Financials Index			4.95%	1.76%	-0.46%	-21.45%	-10.03%	-3.69%	28.76%							

STRATEGIC INCOME <sup>3</sup> (Inception Date 9/30/02)																	
Class A	DSIAX	25264S882	★★ /	4.56%	11.82%	15.94%	6.06%	5.63%	7.88%	9.11%	3.50%	None	0.50%	0.25%	0.30%	1.05%	Multi-sector Bond
Class C	DSICX	25264S874	★★	4.46%	11.21%	15.21%	5.31%	4.86%	7.16%	9.11%	None	1.00%	0.50%	1.00%	0.30%	1.80%	
Class I	DHSTX	25264S866	194 funds Weighted average of 3- and 5-year risk-adjusted returns.	4.75%	12.26%	16.50%	6.52%	6.08%	8.20%	9.10%	None	None	0.50%	None	0.19%	0.69%	
Benchmark	BofA ML US Corporate, Government & Mortgage Index			2.53%	7.97%	8.00%	7.57%	6.30%	5.44%	3.77%							

<sup>†</sup> For Funds with a performance record ten (10) years or greater, the performance number represents "Ten Years"; otherwise, for Funds with a performance record less than ten (10) years, the performance number represents "Life of Fund." Refer to performance disclosure information on page 19



**Performance is not guaranteed.** Performance returns assume reinvestment of all distributions. Returns for the periods less than one year are not annualized. 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. 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. 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.

Morningstar calculates a Morningstar Rating™ for each fund with at least a 3-year history. The rating is based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars; the next 22.5% receive 4 stars; the next 35% receive 3 stars; the next 22.5% receive 2 stars; the bottom 10% receive 1 star. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Ratings. The Morningstar Rating is for the A share class only; other classes may have different performance characteristics. These ratings may change monthly. © Morningstar 2010, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

**Small Cap Fund** The Overall Morningstar Rating™ is based on 310 small value funds as of 9/30/10. The Fund's Class A with Load / Class A Load-Waived ratings were 4 / 5 stars among 310 and 3 / 4 stars among 249 domestic small value funds for the

3- and 5-year periods ended 9/30/10, respectively.

**Small-Mid Cap Fund** The Overall Morningstar Rating™ is based on 349 mid value funds as of 9/30/10. The Fund's Class A with Load / Class A Load-Waived ratings were 4 / 5 stars among 349 domestic mid-cap value funds for the 3 year period ended 9/30/10.

**Large Cap Fund** The Overall Morningstar Rating™ is based on 1,127 large value funds as of 9/30/10. The Fund's Class A with Load / Class A Load-Waived ratings were 4 / 4 stars among 1,127 and 4 / 4 stars among 942 domestic large value funds for the 3- and 5-year periods ended 9/30/10, respectively.

**Select Fund** The Overall Morningstar Rating™ is based on 1,127 large value funds as of 9/30/10. The Fund's Class A with Load / Class A Load-Waived ratings were 4 / 4 stars among 1,127 for the 3 year period ended 9/30/10.

**Long-Short Fund** The Overall Morningstar Rating™ is based on 84 long-short funds as of 9/30/10. The Fund's Class A with Load / Class A Load-Waived ratings were 3 / 3 stars among 84, 3 / 3 stars among 55, and 3 / 3 stars among 15 long-short funds for the 3-, 5-, and 10-year periods ended 9/30/10, respectively.

**Financial Long-Short Fund** The Overall Morningstar Rating™ is based on 109 specialty-financial funds as of 9/30/10. The Fund's Class A with Load / Class A Load-Waived ratings were 3 / 3 stars among 109, 3 / 3 stars among 99, and 4 / 4 stars among 69 specialty-financial funds for the 3-, 5-, and 10-year periods ended 9/30/10, respectively.

**Strategic Income Fund** The Overall Morningstar Rating™ is based on 194 multi-sector bond funds as of 9/30/10. The Fund's Class A with Load / Class A Load-Waived ratings were 2 / 3 stars among 194 and 2 / 3 stars among 153 multi-sector bond funds for the 3- and 5-year periods ended 9/30/10, respectively.

<sup>1</sup> There are special risks associated with small capitalization issues such as market illiquidity and greater market volatility than large capitalization issues.

<sup>2</sup> The Long-Short Fund and the Financial Long-Short Fund use short selling which incurs significant additional risk. Theoretically, stocks sold short have unlimited risk. The Total Expense Ratio includes 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 and for the Financial Long-Short Fund would have been 1.57% for Class A, 2.32% for Class C, and 1.21% for Class I.

<sup>3</sup> The value of fixed-income securities varies inversely with interest rates; that is, as interest rates rise, the market value of fixed-income securities will decline.

<sup>4</sup> Ratings for Class A Load-Waived shares should only be considered by investors who are not subject to a front-end sales charge.

<sup>5</sup> Standard deviation measures the variability of Fund and benchmark returns relative to their respective average monthly returns for the current trailing 5-year period, except Small-Mid Cap Fund and Select Fund where standard deviation is calculated since the inception of each Fund. Returns used for the calculation of standard deviation do not reflect sales charges.

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.

Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.

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### Investment Adviser

Diamond Hill Capital Management, Inc.

### Distributor

BHIL Distributors, Inc. (Member FINRA),  
an affiliate of the Diamond Hill Funds

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