



# Large Cap Fund Commentary



## Portfolio Management



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Manager



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The Fund declined 12.59% (Class A, without sales charge) in the second quarter, compared with an 11.44% decline in the Russell 1000 Index.

During the quarter, no positions provided positive contribution to return. Our holdings in the energy, health care, and financial sectors provided the largest negative contribution to return, while our holdings in the materials and utilities sectors provided the smallest negative contribution to return.

In the energy sector, oil and gas exploration companies Anadarko Petroleum Corp. and Apache Corp. were impacted by uncertainty regarding the future of Gulf of Mexico exploration. Our position in Anadarko Petroleum provided the largest negative contribution to return during the quarter due to its 25% non-operating interest in the oil well at the Deepwater Horizon site. The oil drilling rig that exploded and sank in April 2010, resulted in the largest offshore oil spill in United States history. Anadarko Petroleum shares have discounted a substantial liability resulting from the Deepwater Horizon accident in addition to the uncertainty regarding future deepwater development. Apache was another significant detractor in the energy sector. The company announced two acquisitions that increased the company's exposure to the Gulf of Mexico a few weeks prior to the Deepwater Horizon accident.

In the health care sector, our positions in Medtronic, Inc. and Baxter International, Inc. were the largest negative contributors to return.

Medtronic depreciated during the quarter due to concerns about their 2011 earnings guidance, currency headwinds, and what appears to be a weak economic environment. We believe the company has a strong new product pipeline and continue to think that the stock is undervalued. Baxter depreciated during the quarter after materially revising their earnings guidance downward due to a market share loss in their plasma business and a government recall of their Colleague infusion pumps. We feel that the stock market has adequately discounted shares of Baxter to reflect these issues.

In the financial sector, JPMorgan Chase & Co. and Wells Fargo & Co. were the largest detractors from performance as concerns over European sovereign risks and pending regulatory reform in the United States caused the positions to depreciate during the quarter.

During the quarter, we initiated positions in diversified chemical company, Air Products & Chemicals, Inc.; integrated oil and gas company, Exxon Mobil Corp.; and medical laboratories and research company, Quest Diagnostics, Inc. Air Products was added during the quarter as shares became depressed due to concerns surrounding its potential acquisition of gas distributor Airgas, Inc.

During the quarter, we eliminated our position in XTO Energy, Inc. and used the proceeds to initiate a position in its acquirer, Exxon Mobil. Exxon Mobil's shares were under pressure possibly due to a perceived change in strategy and return-discipline. As a result, Exxon Mobil was trading at a discount to our estimate of intrinsic value. We also initiated a position in Quest Diagnostics. Its shares became very cheap as investors looking for a cyclical recovery fled the healthcare sector and concerns regarding increased government regulation continued. Quest Diagnostics' margins have shown the potential for continued expansion due to an improved product mix that should help drive profit growth. Management has also been very shareholder friendly with repeated share buybacks.

## Performance Update

Period & Average Annual Total Returns as of June 30, 2010

	Second Quarter	One Year	Three Years	Five Years	Since Inception (6/29/01)	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>						
Class A Shares	-12.59%	14.46%	-7.85%	1.12%	3.88%	1.16%
Class C Shares	-12.75%	13.66%	-8.56%	0.36%	3.06%	1.91%
Class I Shares	-12.48%	14.91%	-7.50%	1.51%	4.12%	0.80%
<b>BENCHMARK</b>						
Russell 1000 Index	-11.44%	15.24%	-9.54%	-0.56%	0.43%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>						
Class A Shares	-16.97%	8.76%	-9.41%	0.08%	3.28%	1.16%
Class C Shares	-13.62%	12.66%	-8.56%	0.36%	3.06%	1.91%



# Large Cap Fund Commentary (cont'd)



Finally, we eliminated our position in Transocean Ltd. during the quarter. Following the Deepwater Horizon accident, we believed that the long-term risks to Transocean's business and potential liabilities

could be material, which changed our assumptions and lowered our estimate of intrinsic value.

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

Air Products & Chemicals, Inc.	2.0%	Medtronic, Inc.	3.4%
Anadarko Petroleum Corp.	2.3%	Quest Diagnostics, Inc.	1.2%
Apache Corp.	3.9%	Transocean Ltd.	~
Baxter International, Inc.	1.6%	Wells Fargo & Co.	1.8%
Exxon Mobil Corp.	1.9%	XTO Energy, Inc.	~
JPMorgan Chase & Co.	2.9%		

Mentioned securities not held in Diamond Hill Large Cap Fund: Airgas, Inc.

Views and opinions regarding the investment prospects of our portfolio holdings and funds are "forward looking statements" which may or may not be accurate over the long term. While we believe we have a reasonable basis for our opinion, actual results may differ materially from those we anticipate. Information provided in this report should not be considered a recommendation to purchase or sell any particular security. We cannot assure future results. You should not place undue reliance on forward-looking statements, which speak only as of the date of this report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events, or otherwise.

***The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the last month-end, within 7 business days, at [www.diamond-hill.com](http://www.diamond-hill.com).***

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. One cannot invest directly in an index. Unlike mutual funds, the index does not incur expenses. If expenses were deducted, the actual returns of this index would be lower.

The portfolio holdings are subject to change without notice. Performance is not guaranteed. Performance returns assume reinvestment of all distributions. Returns for the periods less than one year are not

annualized. The total return figures for the Fund do not reflect the applicable sales charge for each class. The investment return and net asset value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than the original purchase price. Class I and Class C shares include performance based on Class A shares, which was achieved prior to the creation of Class I and Class C shares. Class C returns have been restated for sales charges and for fees applicable to Class C shares, which includes a 1.00% 12b-1 fee. In such instances, and without such waiver of fees, the total returns would have been lower.

The maximum sales charge for A shares is 5.00%; C shares have a maximum contingent deferred sales charge (CDSC) of 1.00% for redemptions within the first year of purchase; I shares have no sales charge. Past performance is no guarantee of future results.

**Investors should consider the investment objectives, risks, and charges and expenses of the Diamond Hill Funds carefully before investing. This and other information about the Funds is in the prospectus, which can be obtained at [www.diamond-hill.com](http://www.diamond-hill.com). Read the prospectus carefully before you invest. Diamond Hill Capital Management, Inc., a registered investment adviser, serves as Investment Adviser to the Diamond Hill Funds and is paid a fee for its services. The Diamond Hill Funds are distributed by BHIL Distributors, Inc. (Member FINRA), an affiliated company. Investors may obtain a copy of the current prospectus at 888-226-5595 or [www.diamond-hill.com](http://www.diamond-hill.com). Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.**