

Small Cap Composite

OBJECTIVE: Long-term capital appreciation

INCEPTION DATE: December 29, 2000

BUY STRATEGY Buy securities of small cap companies at prices below our appraisal of intrinsic value. To determine intrinsic value, the business must be understandable and the cash flows must be reasonably estimable. In addition, we seek businesses with a lasting competitive advantage and management with an owner mentality such that shareholders will reap the rewards of the underlying business performance.

SELL STRATEGY Investments are sold when the stock price approximates our appraised intrinsic value. Ideally, this occurs as the stock price has risen and closed the gap with a growing intrinsic value. In a less than ideal situation, our estimate of intrinsic value may be revised such that the market price is no longer at a discount to intrinsic value. In cases where we no longer have confidence we can predict with any reasonable accuracy the business cash flows, the mistake is admitted and the investment is sold. Finally, we may sell one investment in order to raise proceeds for investment in a more attractive alternative.

Portfolio Management



Tom Schindler, CFA
Manager



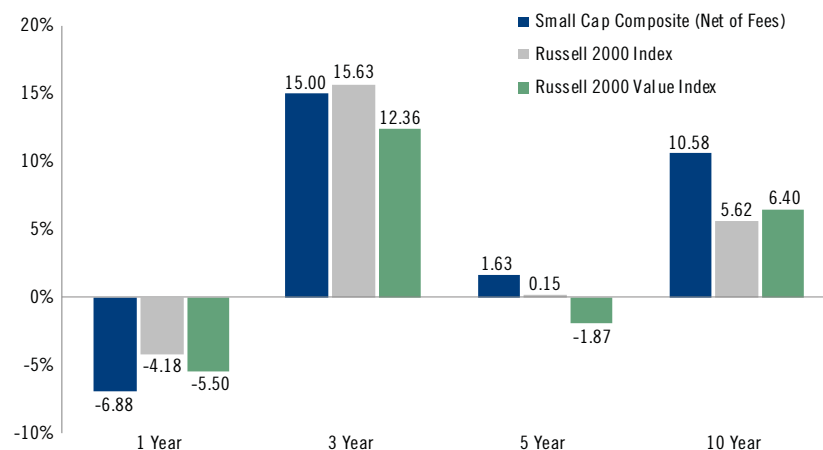
Chris Welch, CFA
Assistant Manager



Chris Bingaman, CFA
Assistant Manager

ANNUALIZED TRAILING RETURNS (%)

As of December 31, 2011



Please review the GIPS® performance disclosure on the reverse side.

4TH QUARTER & CALENDAR YEAR RETURNS (%)

Period	Gross of Fees	Net of Fees	Russell 2000 Index	Russell 2000 Value Index
4Q 2011	10.62	10.41	15.47	15.97
2011	-6.02	-6.88	-4.18	-5.50
2010	25.53	24.33	26.85	24.50
2009	32.61	31.36	27.17	20.58
2008	-26.45	-27.01	-33.79	-28.92
2007	-1.50	-2.31	-1.57	-9.78
2006	11.75	10.90	18.37	23.48
2005	16.37	15.69	4.55	4.71
2004	37.53	36.72	18.33	22.25
2003	54.84	53.59	47.25	46.03
2002	-5.66	-6.42	-20.48	-11.43
2001	18.13	17.83	2.49	14.02

TOP HOLDINGS ¹

	Sector	% of Portfolio
Assurant, Inc.	Financials	4.4
Assured Guaranty Ltd.	Financials	4.0
Energizer Holdings, Inc.	Consumer Staples	4.0
Kennametal, Inc.	Industrials	3.3
Steiner Leisure Ltd.	Consumer Disc.	3.0
Berry Petroleum Co. (CI A)	Energy	2.7
Whiting Petroleum Corp.	Energy	2.2
Flowers Foods, Inc.	Consumer Staples	2.2
Myriad Genetics, Inc.	Health Care	2.1
Old Republic International Corp.	Financials	2.0

PORTFOLIO STATISTICS ¹

Median Market Cap	\$1.6B
Weighted Average Market Cap	\$2.4B
Median Forward P/E	14.9x
Median Trailing P/E	16.1x
Weighted Average Dividend Yield	1.3%
Median Price / Book	1.3x
Median Price / Sales	1.1x
Median Price / Cash Flow	7.8x
Portfolio Turnover (5 Year)	35%
Number of Holdings	70

SECTOR ALLOCATION (%) ¹ *Overweight in Bold*

Sector allocations may not total 100% due to rounding.

	Financials	Industrials	Consumer Disc.	Energy	Consumer Staples	Health Care	Utilities	Information Tech.	Materials	Telecom	Other	Cash & Equiv.
Small Cap Composite	24.0	17.2	12.4	11.3	10.0	5.2	3.2	3.0	—	—	—	13.6
Russell 2000 Index	22.2	15.8	13.3	6.0	3.6	12.6	3.7	16.3	4.9	0.8	0.8	—

¹ This is presented as supplemental information.

Small Cap Commentary

As of December 31, 2011



The **Diamond Hill Small Cap Composite** increased 10.41%, net of fees, during the quarter compared to a 15.47% increase in the Russell 2000 Index and a 15.97% increase in the Russell 2000 Value Index.

All sectors provided a positive contribution to absolute return with our holdings in the industrials and financials sectors providing the largest contribution to return.

The composite's underperformance relative to the Russell 2000 Index was primarily driven by our cash position, which is a residual of our intrinsic value investment process. Security selection in the consumer discretionary and financials sectors also contributed to the relative underperformance.

Contributors:

- Municipal bond insurer **Assured Guaranty Ltd.**'s shares recovered during the fourth quarter following a less severe than expected downgrade of the company's credit rating by Standard & Poor's. The ratings announcement removed a major perceived obstacle as the revised rating leaves Assured Guaranty in a position to continue to write profitable municipal bond insurance.
- Consumer goods maker **Energizer Holdings, Inc.** benefited from decent quarterly results and positive investor sentiment regarding the company's expected earnings growth in 2012.
- Insurance company **Assurant, Inc.** reported strong third quarter earnings and continued to deploy excess capital into share repurchases. Management continues to make progress turning around the health segment and developing alternative revenue streams in its Specialty Property business.
- Oil and gas exploration and production companies **Whiting Petroleum Corp.** and **Berry Petroleum Co.,** along with the industry as a whole, partially reversed their third quarter performance benefiting from a rebound in crude oil prices as the oil demand outlook stabilized and the oil supply outlook remained weak.

Detractors:

- Internet information provider **Global Sources Ltd.** shares declined reflecting growing concerns about the sovereign debt problems in Europe, the economic slowdown in the U.S., and their effect on Global Source's business.
- Real estate investment trust **iStar Financial, Inc.** declined as investors sold shares of companies perceived to be riskier.
- Correctional and detention services company **Corrections Corp. of America** declined in the absence of specific fundamental news.
- Footwear company **K-Swiss, Inc.**'s future orders book declined significantly year-over-year. This was a major setback as the decline came during the first real test for their new running products at mall based retailers.

New Positions:

A position was initiated in **Lone Pine Resources, Inc.**, which is a spin-off of Forest Oil's Canadian subsidiary. The company is transitioning from being a natural gas producer towards a more balanced mix of oil and natural gas which we believe will improve profitability. We reinitiated our position in **Hanesbrands, Inc.** as its stock price declined to an attractive discount to intrinsic value following weaker than expected sales in the third quarter. We initiated a position in **Diamond Foods, Inc.** after the company's stock price declined precipitously following the announcement of an investigation by their audit committee regarding whether a payment made to walnut growers in September should be accounted for in the fiscal year ended August 2011 or in fiscal year 2012. The company has become more focused on snack foods with Emerald nuts, Kettle Chips, and Pop Secret popcorn and would be even more so if a proposed acquisition of Pringles from Procter and Gamble is completed. We also initiated a position in regional property and casualty insurer **Selective Insurance Group, Inc.** Over the past few quarters there have been signs that commercial property and casualty pricing is beginning to improve, which we believe gives Selective Insurance significant upside leverage as large commercial insurers lead pricing higher.

Eliminated Positions:

There were no positions eliminated during the quarter.

Past performance is not a guarantee of future results. Diamond Hill Capital Management, Inc. (DHCM) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS Standards. DHCM has been independently verified for the period 5/31/00 - 12/31/11 by Beacon Verification Services. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. In addition, the Small Cap Composite has received a Performance Examination from 12/29/00 - 12/31/11. The verification and performance exam reports are available upon request. DHCM is a registered investment adviser and wholly owned subsidiary of Diamond Hill Investment Group, Inc. DHCM provides investment management services to individuals and institutional investors through mutual funds, separate accounts, and private investment funds. A complete list and description of all composites and policies for valuing portfolios, calculating and reporting returns, and preparing compliant presentations are available upon request. The Small Cap (SC) Composite is comprised of all discretionary, non-wrap, taxable and non-taxable separate accounts managed according to the firm's Small Cap strategy, including those clients no longer with the firm. The composite results reflect the reinvestment of dividends, capital gains, and other earnings when appropriate. Composite returns and benchmark returns are presented gross of withholding taxes on dividends, interest income and capital gains. Returns are weighted by beginning of the month market values using U.S. Dollar calculations. As of the date of this report, the composite does not contain any non-fee paying portfolios. Net of fees returns are presented net of management fees, transaction costs and performance-based fees. Actual investment management fees are used in the calculation. Only transaction costs are deducted from gross of fees net of management fees. Securities and cash for each segment of a balanced account are maintained in their own sub-account. Balanced portfolio segments are included in their appropriate strategy; interest income from cash and expenses paid are allocated to each segment on a pro-rata basis while income earned from securities are allocated to the strategy in which they were earned. Balanced portfolio segments were not used in any single asset composites prior to 9/30/04. As of 12/31/11, 12/31/10, 12/31/09, 12/31/08, 12/31/07, 12/31/06, 12/31/05 & 12/31/04, carve-outs comprised 4%, 4%, 6%, 12%, 50%, 53%, 47% & 39% of the SC Composite, respectively. The composite does not contain portfolios that use leverage or derivatives. The Russell 2000 Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 2,000 smallest U.S. companies, on a market capitalization basis, in the Russell 3000 Index. The Russell 3000 Index is a market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies. Our selection process may lead to portfolios that differ markedly from the benchmarks presented. Returns may be more volatile than, and/or may not be correlated to, these indices, which are for comparative purposes only. The Firm's standard fee schedule for Small Cap separate accounts is as follows (fees are payable quarterly in arrears): First \$20,000,000 = 1.00%; Over \$20,000,000 = 0.80%. Total end of period managed assets for Diamond Hill Capital Management, Inc. were \$8.7 billion in 2011; \$8.6 billion in 2010; \$6.3 billion in 2009; \$4.5 billion in 2008; \$4.4 billion in 2007; \$3.7 billion in 2006; \$1.5 billion in 2005; \$523 million in 2004; \$250 million in 2003; \$108 million in 2002; \$65 million in 2001; \$25 million in 2000. As of December 31, 2011, the SC Composite included 14 accounts with \$49.2 million in assets. As of December 31, 2010, the SC Composite included 17 accounts with \$61.4 million in assets. As of December 31, 2009, the SC Composite included 17 accounts with \$52.8 million in assets. As of December 31, 2008, the SC Composite included 10 accounts with \$22.9 million in assets. As of December 31, 2007, the SC Composite included 8 accounts with \$9.6 million in assets. As of December 31, 2006, the SC Composite included 8 accounts with \$9.8 million in assets. As of December 31, 2005, the SC Composite included 8 accounts with \$10.3 million in assets. As of December 31, 2004, the SC Composite included 7 accounts with \$10.4 million in assets. As of December 31, 2003, the SC Composite included 5 or fewer accounts with \$1.7 million in assets. As of December 31, 2002, the SC Composite included 5 or fewer accounts with \$1.1 million in assets. As of December 31, 2001, the SC Composite included 5 or fewer accounts with \$1.2 million in assets. The dispersion measure is the asset weighted standard deviation of the annual portfolio returns. Only portfolios represented in the composite for the entire year are included in the calculation. The calculation is not performed if the composite contains 5 or fewer accounts for the full year. The calendar year dispersion, net of fees, for the SC composite was 0.44% in 2011; 0.56% in 2010; 1.29% in 2009; 0.88% in 2008; 0.33% in 2007; 0.88% in 2006; 0.82% in 2005; 0.16% in 2004. As of December 31, 2011, the three-year standard deviation, calculated gross of fees, for the SC Composite and the Russell 2000 Index was 23.35% and 24.99%, respectively. This composite was created in June 2004. No alteration of composites as presented here has occurred because of changes in personnel at any time.