

Large Cap Composite

OBJECTIVE: Long-term capital appreciation
INCEPTION DATE: December 29, 2000

BUY STRATEGY Buy securities of large 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



Chuck Bath, CFA
Manager



Bill Dierker, CFA
Assistant Manager



Chris Welch, 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 1000 Index	Russell 1000 Value Index
4Q 2011	13.91	13.76	11.84	13.11
2011	3.84	3.29	1.50	0.39
2010	10.52	9.95	16.10	15.51
2009	31.09	30.42	28.43	19.69
2008	-34.54	-34.88	-37.60	-36.85
2007	7.42	6.91	5.77	-0.17
2006	17.95	17.41	15.46	22.25
2005	19.30	18.72	6.27	7.05
2004	24.38	23.01	11.40	16.49
2003	35.50	33.91	29.89	30.03
2002	-14.22	-15.26	-21.65	-15.52
2001	10.66	9.74	-12.45	-5.59

TOP HOLDINGS ¹

	Sector	% of Portfolio
Occidental Petroleum Corp.	Energy	3.9
Anadarko Petroleum Corp.	Energy	3.7
Devon Energy Corp.	Energy	3.3
United Technologies Corp.	Industrials	3.2
Medtronic, Inc.	Health Care	3.1
Pfizer, Inc.	Health Care	3.1
Abbott Laboratories	Health Care	3.1
PepsiCo, Inc.	Consumer Staples	3.0
Procter & Gamble Co.	Consumer Staples	3.0
Merck & Co., Inc.	Health Care	2.9

PORTFOLIO STATISTICS ¹

Median Market Cap	\$38.0B
Weighted Avg. Market Cap	\$74.7B
Median Forward P/E	12.9x
Median Trailing P/E	14.0x
Weighted Average Dividend Yield	2.2%
Median Price / Book	2.4x
Median Price / Sales	1.8x
Median Price / Cash Flow	9.3x
Portfolio Turnover (5 Year)	32%
Number of Holdings	47

SECTOR ALLOCATION (%) ¹ *Overweight in Bold*

Sector allocations may not total 100% due to rounding.

	Health Care	Energy	Financials	Consumer Staples	Industrials	Information Tech.	Consumer Disc.	Materials	Utilities	Telecom	Cash & Equiv.
Large Cap Composite	20.8	17.4	17.3	13.3	11.4	8.2	5.9	2.9	—	—	2.7
Russell 1000 Index ¹	11.7	11.8	14.2	9.4	10.9	18.2	12.8	4.0	4.0	3.1	—

¹This is presented as supplemental information.

Large Cap Commentary

As of December 31, 2011



The **Diamond Hill Large Cap Composite** increased 13.76%, net of fees, during the quarter compared to an 11.84% increase in the Russell 1000 Index and a 13.11% increase in the Russell 1000 Value Index.

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

The composite's outperformance relative to the Russell 1000 Index was primarily driven by security selection and an overweight position in the energy sector, security selection in the financial sector, and security selection and an underweight position in the information technology sector. An overweight position and security selection in the consumer staples sector and an overweight position in the health care sector detracted from relative performance.

Contributors:

- Our energy holdings, including oil and gas exploration and production companies **Occidental Petroleum Corp.**, **Anadarko Petroleum Corp.**, and **EOG Resources, Inc.** 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.
- Drug manufacturer **Pfizer, Inc.** outperformed after reporting the best quarterly results for the company over the last several years. The strength of its large legacy brands is providing a cushion for the patent expiration of the world's largest drug, Lipitor, in late 2011. Pfizer has been implementing an aggressive cost cutting program, which should provide additional support for 2011 earnings. The announcement of a new share repurchase plan and a 10% increase in the dividend also provided support for the stock.
- Property and casualty insurance company **Travelers Cos., Inc.** reported an accelerating trend of improved pricing for commercial insurance through the end of 2011. Rates are now at levels in excess of loss cost trends.

Detractors:

- Medical products company **Baxter International, Inc.** declined after management provided conservative earnings guidance reflecting greater market competition and negative headwinds from foreign exchange exposure. We believe the concerns are short-term issues.

New Positions:

During the quarter, we initiated a position in multimedia company **Walt Disney Co.** With a strong franchise and pricing power in many of their business segments, we believe the company will generate significant free cash flow over the long-term and management is committed to returning capital to shareholders through dividends and share repurchases.

Eliminated Positions:

During the quarter, we eliminated our positions in **Assurant, Inc.** and **KLA-Tencor Corp.** Assurant was sold as a source of funds to purchase companies selling at a wider discount to our estimate of intrinsic value, while KLA-Tencor was eliminated because we were unable to establish a minimum position at an acceptable price.

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 Large 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 Large Cap (LC) Composite is comprised of all discretionary, non-wrap, taxable and non-taxable separate accounts managed according to the firm's Large 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. Prior to 9/30/04, this composite commingled wrap and non-wrap accounts, and for the period 12/31/00 - 10/31/01, the composite contained a large cap account that was non-fee paying and non-wrap. As a result, the gross performance for this account was reduced by 30 basis points quarterly for the maximum large cap wrap fee of 120 basis points annually. Wrap accounts represented 50% of the accounts and 54% of the assets under management (AUM) for the month ending 10/31/01 and 100% of the accounts and AUM from 11/1/01 - 9/30/04. Beginning 10/1/04, all wrap accounts exited the composite to be included in a separate wrap composite. 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 returns. For the LC composite through 9/30/04 (wrap composite), net of fees performance is presented net of management and custody fees and transaction costs. 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 0.2%, 0.2%, 0.4%, 1%, 2%, 2%, 3% & 87% of the LC Composite, respectively. The composite does not contain portfolios that use leverage or derivatives. The Russell 1000 Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 1,000 largest 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 Large Cap separate accounts is as follows (fees are payable quarterly in arrears): First \$20,000,000 = 0.65%; Over \$20,000,000 = 0.55%. 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 LC Composite included 124 accounts with \$1.4 billion in assets. As of December 31, 2010, the LC Composite included 117 accounts with \$1.2 billion in assets. As of December 31, 2009, the LC Composite included 101 accounts with \$715.1 million in assets. As of December 31, 2008, the LC Composite included 104 accounts with \$334.0 million in assets. As of December 31, 2007, the LC Composite included 94 accounts with \$327.9 million in assets. As of December 31, 2006, the LC Composite included 41 accounts with \$256.6 million in assets. As of December 31, 2005, the LC Composite included 31 accounts with \$124.4 million in assets. As of December 31, 2004, the LC Composite included 5 or fewer accounts with \$4.2 million in assets. As of December 31, 2003, the LC Composite included 5 or fewer accounts with \$1.2 million in assets. As of December 31, 2002, the LC Composite included 5 or fewer accounts with less than \$1 million in assets. As of December 31, 2001, the LC Composite included 5 or fewer accounts with less than \$1 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 LC composite was 0.29% in 2011; 0.39% in 2010; 0.82% in 2009; 0.69% in 2008; 0.24% in 2007; 0.53% in 2006; 0.19% in 2005. As of December 31, 2011, the three-year standard deviation, calculated gross of fees, for the LC Composite and the Russell 1000 Index was 18.90% and 18.95%, respectively. This composite was created in September 2004. No alteration of composites as presented here has occurred because of changes in personnel at any time.