

Select Composite

OBJECTIVE: Long-term capital appreciation

INCEPTION DATE: May 31, 2000

BUY STRATEGY Buy securities with a market capitalization of \$500M or greater at prices below our estimate 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



Bill Dierker, CFA
Manager



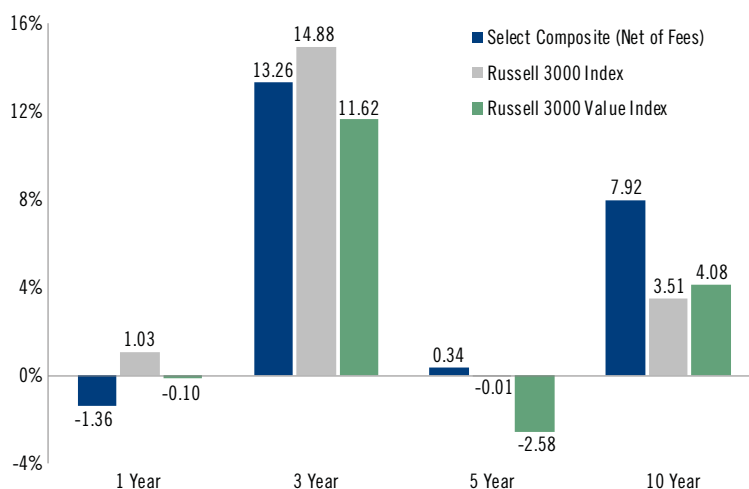
Chuck Bath, CFA
Assistant Manager



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 3000 Index	Russell 3000 Value Index
4Q 2011	11.21	11.02	12.12	13.33
2011	-0.64	-1.36	1.03	-0.10
2010	11.52	10.67	16.93	16.23
2009	34.13	33.11	28.34	19.76
2008	-33.20	-33.72	-37.31	-36.25
2007	6.39	5.59	5.14	-1.01
2006	15.06	14.24	15.72	22.34
2005	20.54	19.74	6.12	6.85
2004	26.19	25.28	11.95	16.94
2003	37.85	36.68	31.06	31.14
2002	-9.32	-10.04	-21.54	-15.18
2001	4.57	4.20	-11.46	-4.33
2000*	7.38	7.38	-5.62	7.47

* Cumulative return from 5/31/00-12/31/00.

TOP HOLDINGS ¹

	Sector	% of Portfolio
ConAgra Foods, Inc.	Consumer Staples	3.6
Sysco Corp.	Consumer Staples	3.6
United Technologies Corp.	Industrials	3.3
Medtronic, Inc.	Health Care	3.2
Prudential Financial, Inc.	Financials	3.2
Wells Fargo & Co.	Financials	3.2
UnitedHealth Group, Inc.	Health Care	3.1
Apache Corp.	Energy	3.0
Intl. Business Machines Corp.	Information Tech.	3.0
Occidental Petroleum Corp.	Energy	3.0

PORTFOLIO STATISTICS ¹

Median Market Cap	\$32.6B
Weighted Avg. Market Cap	\$67.0B
Median Forward P/E	11.5x
Median Trailing P/E	13.2x
Weighted Average Dividend Yield	1.3%
Median Price / Book	2.1x
Median Price / Sales	1.9x
Median Price / Cash Flow	8.5x
Portfolio Turnover (5 Year)	40%
Number of Holdings	40

SECTOR ALLOCATION (%) ¹ *Overweight in Bold*

	Financials	Health Care	Consumer Staples	Energy	Industrials	Information Tech.	Consumer Disc.	Materials	Utilities	Telecom	Other	Cash & Equiv.
Select Composite	20.7	19.7	13.9	13.9	13.6	6.9	3.0	2.5	—	—	—	5.9
Russell 3000 Index	14.8	11.7	8.9	11.3	11.3	18.1	12.9	4.0	4.0	2.9	—	—

Sector allocations may not total 100% due to rounding.

¹ This is presented as supplemental information.

Select Commentary

As of December 31, 2011



The **Diamond Hill Select Composite** increased 11.02%, net of fees, during the quarter compared to a 12.12% increase in the Russell 3000 Index and a 13.33% increase in the Russell 3000 Value Index.

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

The composite's underperformance relative to the Russell 3000 Index was primarily driven by security selection in the industrials and information technology sectors as well as an overweight position and security selection in the health care sector. Security selection in the financials sector and an underweight position in the telecommunication services and utilities sectors contributed to relative return. Additionally, our cash position, although modest, detracted from relative performance during the quarter.

Contributors:

- Oil and gas exploration and production company **Occidental Petroleum Corp.** reversed its 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.
- Municipal bond insurer **Assured Guaranty Ltd.** shares recovered during the fourth quarter following a less severe than expected downgrade of the company's credit rating by Standard & Poor's. Ratings uncertainty had impeded Assured Guaranty's ability to write new municipal bond insurance. With the favorable resolution of S&P's ratings review, Assured Guaranty is now in a position to grow its new business volumes.

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.
- Real estate investment trust **iStar Financial, Inc.** declined as investors sold shares of companies perceived to be riskier.
- Apparel manufacturer **Hanesbrands, Inc.** declined after another apparel manufacturer pre-released fourth quarter earnings and lowered guidance for 2012 earnings due to slower sales growth and higher cotton prices. We believe there are key differences between the two companies, and Hanesbrands continues to sell at an attractive discount to our estimate of intrinsic value.

New Positions:

During the quarter, we initiated a position in regional bank **PNC Financial Services Group, Inc.** which is among the highest quality large cap financial services companies in the U.S. PNC maintains prudent credit standards and healthy capital levels while efficiently generating a diverse revenue stream. 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.

Eliminated Positions:

During the quarter, we eliminated our position in oil field services company **Exterran Holdings, Inc.** and **Wal-Mart Stores, Inc.** as their stock prices reached our estimates of intrinsic value.

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 Select Composite has received a Performance Examination from 5/31/00 - 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 Select (SL) Composite is comprised of all discretionary, non-wrap, taxable and non-taxable separate accounts managed according to the firm's Select 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. The SL Composite contains one account whose fees were waived for the year 2000; this account made up 100% of the assets under management (AUM) of the composite for this period. 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. 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%, 8%, 7%, 12%, 13%, 10%, 15% & 50% of the SL Composite, respectively. The composite does not contain portfolios that use leverage or derivatives. The Russell 3000 Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. 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, this index, which is for comparative purposes only. The Firm's standard fee schedule for Select separate accounts is as follows (fees are payable quarterly in arrears): First \$20,000,000 = 0.85%; Over \$20,000,000 = 0.70%. 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 SL Composite included 23 accounts with \$101.6 million in assets. As of December 31, 2010, the SL Composite included 26 accounts with \$63.4 million in assets. As of December 31, 2009, the SL Composite included 27 accounts with \$68.5 million in assets. As of December 31, 2008, the SL Composite included 33 accounts with \$53.1 million in assets. As of December 31, 2007, the SL Composite included 35 accounts with \$83.8 million in assets. As of December 31, 2006, the SL Composite included 33 accounts with \$107.4 million in assets. As of December 31, 2005, the SL Composite included 32 accounts with \$81.8 million in assets. As of December 31, 2004, the SL Composite included 28 accounts with \$22.8 million in assets. As of December 31, 2003, the SL Composite included 10 accounts with \$5.7 million in assets. As of December 31, 2002, the SL Composite included 16 accounts with \$7.7 million in assets. As of December 31, 2001, the SL Composite included 11 accounts with \$6.8 million in assets. As of December 31, 2000, the SL 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 SL composite was 0.20% in 2011; 0.48% in 2010; 0.54% in 2009; 0.76% in 2008; 0.37% in 2007; 0.81% in 2006; 1.36% in 2005; 0.78% in 2004; 0.72% in 2003; 1.09% in 2002. As of December 31, 2011, the three-year standard deviation, calculated gross of fees, for the SL Composite and the Russell 3000 Index was 18.75% and 19.35%, respectively. This composite was created in December 2008 as a result of a composite restructuring. Taxable and non-taxable accounts are included in the composite whereas previously they resided in separate composites. A compliant presentation is available upon request for the Select Non-Taxable composite, which was previously marketed, or the Select Taxable composite. No alteration of composites as presented here has occurred because of changes in personnel at any time.