

Strategic Income Composite



OBJECTIVE: Current Income and Total Return
INCEPTION DATE: December 31, 2002

BUY STRATEGY Selects income-producing securities after performing a risk/reward analysis including an evaluation of interest rate, credit, and other risks. Securities are purchased when the forecast total return is attractive compared to the risks borne. We allocate relatively more of our investments to those sectors that are expected to offer the best prospects for current income and capital appreciation.

SELL STRATEGY Securities may be held until they mature or are called. Securities may also be sold because they are no longer attractive on either an absolute basis or relative to other available opportunities.

Portfolio Management



Bill Zox, CFA
Manager



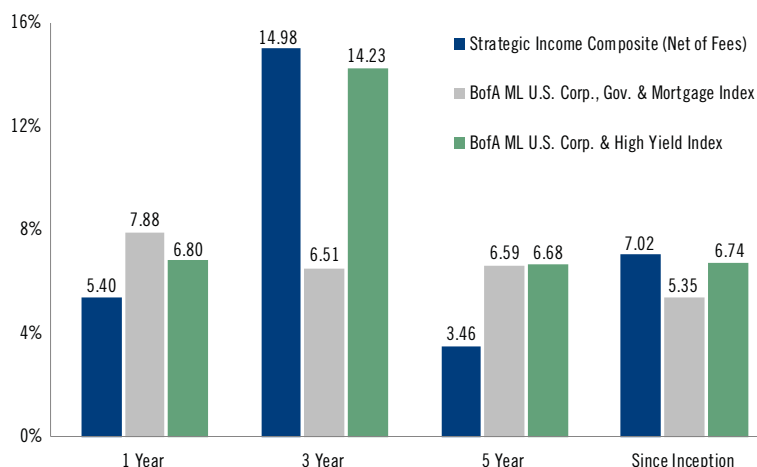
Chris Bingaman, CFA
Assistant Manager



Austin Hawley, 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	BofA ML U.S. Corp., Gov. & Mortgage Index	BofA ML U.S. Corp. & High Yield Index
4Q 2011	3.01	2.88	1.06	2.69
2011	5.94	5.40	7.88	6.80
2010	11.48	10.92	6.43	10.76
2009	30.69	30.02	5.24	26.00
2008	-16.84	-17.21	6.20	-10.93
2007	-5.36	-5.80	7.20	4.09
2006	11.44	10.90	4.31	6.20
2005	3.38	2.90	2.54	2.20
2004	7.44	7.07	4.34	6.71
2003	27.45	27.13	4.12	12.36

TOP HOLDINGS¹ Representative Account % of Portfolio

Avis Budget Car Rental 9.625% 3/15/18	4.1
BE Aerospace, Inc. 8.5% 7/1/18	3.8
KLA Instruments Corp. 6.9% 5/1/18	3.5
Anadarko Petroleum Corp. 5.95% 9/15/16	3.4
Cimarex Energy Co. 7.125% 5/1/17	3.3
Symetra Financial Corp. 6.125% 4/1/16	3.3
Zions Bancorp 7.75% 9/23/14	3.2
United Rentals North Am. 10.875% 6/15/16	3.1
iStar Financial, Inc. 5.7% 3/1/14	3.0
Mylan, Inc. 7.625% 7/15/17	3.0
Total Number of Securities	49

PORTFOLIO STATISTICS¹ Representative Account

Duration	2.61
Bond & Preferred Quality Rating	
AAA	0.0%
AA	0.1%
A	0.0%
BBB	26.3%
BB	34.8%
B	26.0%
CCC	4.2%
CC	0.0%
C	0.0%
NR	0.6%

SECURITY TYPE ALLOCATION (%)¹ Representative Account

Security type allocations may not total 100% due to rounding.

	Corporate Bonds	Preferreds	Asset-Backed Securities	Common Stocks	Limited Partnerships	Municipal Bonds	Government Bonds	Cash & Equiv.
Strategic Income	90.5	0.8	0.6	—	—	—	—	8.1

¹This is presented as supplemental information.

Strategic Income Commentary



As of December 31, 2011

The **Diamond Hill Strategic Income Composite** generated a 2.88% total return, net of fees, in the fourth quarter compared to a 1.06% total return for the Bank of America Merrill Lynch U.S. Corporate, Government and Mortgage Index and a 2.69% total return for the Bank of America Merrill Lynch U.S. Corporate & High Yield Index. A review of various yields and credit spreads follows:

	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
2-Year U.S. Treasury Yield	0.24%	0.25%	0.44%	0.83%	0.43%
10-Year U.S. Treasury Yield	1.88%	1.92%	3.16%	3.47%	3.30%
BofA ML U.S. Corporates, BBB Rated Option Adjusted Spread (basis points)	315	310	203	189	211
BofA ML U.S. High Yield Master II Index Option Adjusted Spread (basis points)	723	841	542	474	541

The U.S. economy bounced back nicely from its mid-year troubles and risk assets such as high yield corporate bonds recovered as well. For the year, however, risk assets significantly underperformed U.S. government bonds. For example, the Bank of America Merrill Lynch U.S. Treasury Master Index returned 9.79% for the year compared to 4.38% for the Bank of America Merrill Lynch U.S. High Yield Master II Index.

Since the financial crisis, the U.S. household and financial sectors have made progress on deleveraging their balance sheets but much of this has been offset by an increase in the leverage of the government sector. To this point, we have been fortunate that the markets have allowed us to proceed on the path of deleveraging in this fashion. By contrast, peripheral Europe is being forced to deleverage both private and public sectors simultaneously which is a difficult if not impossible task as growth continually comes in below projections.

It is difficult to know the timing or extent of the turmoil in our bond, equity, and currency markets that may be necessary to compel the appropriate policy actions to place our long-run fiscal position on a sustainable path. The negative effects of the debt ceiling debacle and subsequent downgrade of the U.S. credit rating were borne by the equity markets while the Treasury bond and currency markets benefited (although the European debt crisis was also a significant factor). Regardless, we do not believe it is prudent to assume that the markets' patience with the U.S. Treasury will continue indefinitely during the many years of deleveraging still ahead. For this reason, as well as the historically low level of yields and the vigilance with which the Federal Reserve confronts the threat of deflation, we are not interested in bearing much interest rate risk.

In contrast, credit spreads are still attractive. At 723 basis points, the year-end option adjusted spread of the High Yield Index is 179 basis points wide of the 15-year median spread. While default rates have averaged about 4% per year, projections for 2012 seem to be in the range of 1.5% - 3.0% due in part to the significant amount of refinancing already completed over the last several years.

We continue to maintain a portfolio of corporate bonds that generates an attractive yield with modest interest rate risk. To do this, we have to bear credit risk, and our focus is on earning an appropriate yield for the level of credit risk that we bear on each position.

The Bank of America Merrill Lynch U.S. 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 U.S. Corporate & High Yield Index tracks the performance of US dollar denominated investment grade and below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must be rated by either Moody's, S&P or Fitch and must have an investment grade rated country of risk, at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of \$250 million for investment grade securities and \$100 million below investment grade securities. Index constituents are capitalization weighted by outstanding issuance.

The Bank of America Merrill Lynch U.S. Corporate BBB Rated Index tracks the performance of US dollar denominated investment grade debt publicly issued in the U.S. 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. One cannot invest directly in an index.

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. Verification does not ensure the accuracy of any specific composite presentation. Verification 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 Strategic Income (SI) Composite is comprised of all discretionary, non-wrap, taxable and non-taxable separate accounts managed according to the firm's Strategic Income 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 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 5%, 4%, 4%, 3%, 3%, 4% & 5% of the SI Composite, respectively. The composite does not contain portfolios that use leverage or derivatives. The BofA Merrill Lynch U.S. Corporate, Government, & Mortgage Index is the primary benchmark. This 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. 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 Strategic Income separate accounts is as follows (fees are payable quarterly in arrears): First \$20,000,000 = 0.55%; Over \$20,000,000 = 0.50%. 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 SI Composite included 6 accounts with \$7.5 million in assets. As of December 31, 2010, the SI Composite included 6 accounts with \$7.4 million in assets. As of December 31, 2009, the SI Composite included 6 accounts with \$8.2 million in assets. As of December 31, 2008, the SI Composite included 10 accounts with \$35.7 million in assets. As of December 31, 2007, the SI Composite included 14 accounts with \$55.5 million in assets. As of December 31, 2006, the SI Composite included 15 accounts with \$58.2 million in assets. As of December 31, 2005, the SI Composite included 17 accounts with \$63.0 million in assets. As of December 31, 2004, the SI Composite included 21 accounts with \$73.0 million in assets. As of December 31, 2003, the SI Composite included 9 accounts with \$39.2 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 SI composite was 0.30% in 2011; 0.65% in 2010; 2.72% in 2009; 7.31% in 2008; 2.75% in 2007; 1.60% in 2006; 0.87% in 2005; and 0.97% in 2004. As of December 31, 2011, the three-year standard deviation, calculated gross of fees, for the SI Composite and the BofA Merrill Lynch U.S. Corporate, Government, & Mortgage Index was 7.63% and 2.86%, 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 Strategic Income Taxable composite, which was previously marketed, or the Strategic Income Non-Taxable composite. No alteration of composites as presented here has occurred because of changes in personnel at any time.