

Small-Mid Cap Composite



OBJECTIVE: Long-term capital appreciation

INCEPTION DATE: November 30, 2006

BUY STRATEGY Buy securities of small and mid-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



Chris Welch, CFA
Manager



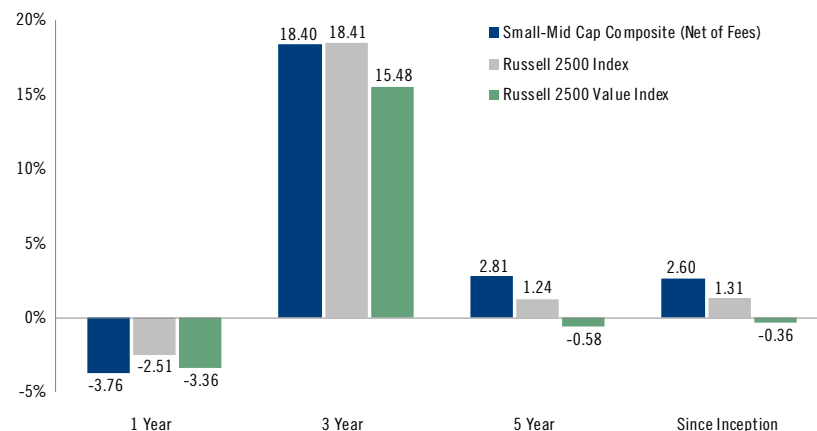
Tom Schindler, CFA
Assistant Manager



Chris Bingaman, CFA
Assistant Manager

ANNUALIZED TRAILING RETURNS (%)

As of December 31, 2011



4TH QUARTER & CALENDAR YEAR RETURNS (%)

Period	Gross of Fees	Net of Fees	Russell 2500 Index	Russell 2500 Value Index
4Q 2011	12.15	11.91	14.52	15.45
2011	-2.88	-3.76	-2.51	-3.36
2010	25.10	23.96	26.71	24.82
2009	40.45	39.13	34.39	27.68
2008	-30.03	-30.68	-36.79	-31.99
2007	0.58	-0.18	1.38	-7.27
2006*	-0.80	-0.80	0.44	1.10

*Cumulative return from 11/30/06-12/31/06.

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

TOP HOLDINGS ¹

	Sector	% of Portfolio
Noble Energy, Inc.	Energy	4.4
Assured Guaranty Ltd.	Financials	4.3
ConAgra Foods, Inc.	Consumer Staples	4.1
Dover Corp.	Industrials	3.8
Quest Diagnostics, Inc.	Health Care	3.6
Assurant, Inc.	Financials	3.1
Forest Laboratories, Inc.	Health Care	3.0
Energizer Holdings, Inc.	Consumer Staples	3.0
Cimarex Energy Co.	Energy	3.0
Broadridge Financial Solutions, Inc.	Information Tech.	2.2

PORTFOLIO STATISTICS ¹

Median Market Cap	\$2.9B
Weighted Avg. Market Cap	\$5.3B
Median Forward P/E	13.6x
Median Trailing P/E	14.4x
Weighted Average Dividend Yield	1.4%
Median Price / Book	1.8x
Median Price / Sales	1.2x
Median Price / Cash Flow	8.0x
Portfolio Turnover (5 Year)	46%
Number of Holdings	63

SECTOR ALLOCATION (%) ¹ *Overweight in Bold*

Sector allocations may not total 100% due to rounding.

	Financials	Energy	Consumer Staples	Industrials	Health Care	Consumer Disc.	Information Tech.	Utilities	Materials	Telecom	Other	Cash & Equiv.
Small-Mid Cap Composite	20.7	14.6	14.4	14.0	11.2	8.9	8.1	2.5	—	—	—	5.5
Russell 2500 Index	21.3	6.3	3.5	15.4	10.6	13.8	14.8	5.9	7.0	1.0	0.5	—

¹ This is presented as supplemental information.

Small-Mid Cap Commentary



As of December 31, 2011

The **Diamond Hill Small-Mid Cap Composite** increased 11.91%, net of fees, during the quarter compared to a 14.52% increase in the Russell 2500 Index and a 15.45% increase in the Russell 2500 Value Index.

All sectors provided a positive contribution to absolute return with our holdings in the energy, industrials, and consumer staples sectors providing the largest contribution to return.

The composite's underperformance relative to the Russell 2500 Index was primarily driven by our security selection in the financials and industrials sectors and overweight position in the consumer staples sector. Our overweight position in the energy sector and security selection in the information technology sector contributed to relative return.

Contributors:

- Oil and gas exploration company **Noble Energy, Inc.**, 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.
- Diversified machining company **Dover Corp.** rebounded over the quarter participating in the general upswing in most cyclical businesses.
- 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.
- Medical laboratories and research company **Quest Diagnostics, Inc.** showed signs of stabilization and improvement in diagnostic testing volumes, focusing investors' attention on the positive attributes of this inexpensive company.
- Drug discovery and development services provider **Pharmaceutical Product Development, Inc.** was taken private during the quarter at a 30% premium to its stock price.
- Processed and packaged foods company **B & G Foods, Inc.** shares rose during the quarter in response to news of continued organic growth, the acquisition of Culver Specialty Brands from Unilever, and an increase in the quarterly dividend rate.

Detractors:

- Property and casualty insurance company **Hartford Financial Services Group, Inc.** reported lower than anticipated earnings due to increasing loss costs from catastrophes and workers compensation insurance. In addition, management indicated that elevated hedging costs are likely to constrain their capital flexibility through 2012.
- Correctional and detention services company **Corrections Corp. of America** declined in the absence of specific fundamental news.
- Footwear company **K-Swiss, Inc.** 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:

We received **Lone Pine Resources, Inc.** during the quarter as 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 also initiated positions in regional airline company **Alaska Air Group, Inc.** and **Hartford Financial Services Group, Inc.** as both companies were selling at prices below our estimate of intrinsic value.

Eliminated Positions:

During the quarter, our position in **Pharmaceutical Product Development, Inc.** was eliminated as two private equity companies, Carlyle Group and Hellman & Friedman, took the company private. **Old Republic International Corp.** was eliminated during the fourth quarter to fund purchases of other companies that we believe are selling at larger discounts to intrinsic value with better prospects for intrinsic value growth. **Arch Capital Group Ltd.** was sold for tax loss purposes.

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-Mid Cap Composite has received a Performance Examination from 11/30/06 - 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-Mid (SM) Composite is comprised of all discretionary, non-wrap, taxable and non-taxable separate accounts managed according to the firm's Small-Mid Cap strategy, including those accounts 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, carve-outs comprised 0%, 0%, 0%, 0% & 0% of the SM Composite, respectively. The composite does not contain portfolios that use leverage or derivatives. The Russell 2500 Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 2,500 smallest 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-Mid Cap separate accounts is as follows (fees are payable quarterly in arrears): First \$20,000,000 = 0.95%; Over \$20,000,000 = 0.75%. 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 SM Composite included 4 accounts with \$18.7 million in assets. As of December 31, 2010, the SM Composite included 5 accounts with \$28.6 million in assets. As of December 31, 2009, the SM Composite included 5 accounts with \$25.0 million in assets. As of December 31, 2008, the SM Composite included 7 accounts with \$22.6 million in assets. As of December 31, 2007, the SM Composite included 8 accounts with \$39.1 million in assets. As of December 31, 2006, the SM Composite included 5 or fewer accounts with \$10.2 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 SM composite was 0.10% in 2011; 0.13% in 2010; 0.39% in 2009; 0.63% in 2008; 0.21% in 2007. As of December 31, 2011, the three-year standard deviation, calculated gross of fees, for the SM Composite and the Russell 2500 Index was 24.24% and 23.40%, respectively. This composite was created in November 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 Small-Mid Non-Taxable composite, which was previously marketed, or the Small-Mid Taxable composite. No alteration of composites as presented here has occurred because of changes in personnel at any time.