

Small Cap Fund

Investment Objective

- ◆ Long-term capital growth by investing in companies selling for less than our appraisal of intrinsic value.
- ◆ Suitable for investors with a 5+ year investment horizon.

Portfolio Management



Tom Schindler, CFA
Manager



Chris Welch, CFA
Assistant Manager



Chris Bingaman, CFA
Assistant Manager

Investment Strategy

BUY STRATEGY The Fund seeks to buy securities of 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.

FUND GUIDELINES Typically 40-70 positions. Maximum sector exposure is 30%.

MARKET CAPITALIZATION The Fund normally invests at least 80% of its net assets in small capitalization companies, defined as those companies with a market capitalization below \$2.5 billion at the time of purchase by the Fund or those companies within the market capitalization range of the Russell 2000 Index.

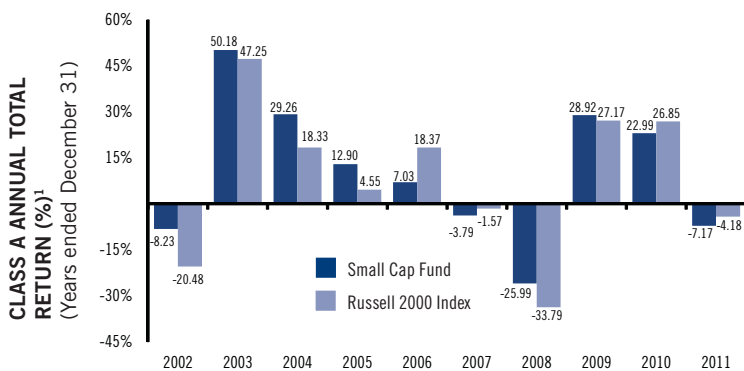
There are specialized risks associated with small capitalization issues, such as market illiquidity and greater market volatility than large capitalization issues.

Performance Update

Period & Average Annual Total Returns as of December 31, 2011

	Fourth Quarter	One Year	Three Year	Five Year	Ten Year	Total Expense Ratio
PERFORMANCE AT NAV <i>without sales charges</i>						
Class A Shares	10.27%	-7.17%	13.75%	0.94%	8.48%	1.35%
Class Y Shares	10.27%	-7.17%	13.75%	0.94%	8.48%	0.93%
BENCHMARK						
Russell 2000 Index	15.47%	-4.18%	15.63%	0.15%	5.62%	—
PERFORMANCE AT POP <i>includes sales charges</i>						
Class A Shares	4.77%	-11.82%	11.82%	-0.09%	7.92%	1.35%

The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than the performance data quoted. Investors may obtain performance information current to the most recent month-end, within 7 business days, at www.diamond-hill.com.



The Russell 2000 Index is a market capitalization-weighted index measuring performance of the smallest 2,000 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 based on total market capitalization. One cannot invest directly in an index. Unlike mutual funds, the index does not incur expenses. If expenses were deducted, the actual returns of this index would be lower.

¹ Figures do not reflect sales charges. If they did, the returns would be lower.

Best Performers

Security Name	Fourth Quarter Contribution ²	Position as of December 31
Assured Guaranty Ltd.	0.7%	4.1%
Energizer Holdings, Inc.	0.7%	4.3%
Assurant, Inc.	0.6%	4.5%
Whiting Petroleum Corp.	0.6%	2.3%
Berry Petroleum Co. (CI A)	0.6%	2.8%

Worst Performers

Security Name	Fourth Quarter Contribution ²	Position as of December 31
Global Sources Ltd.	-0.2%	0.6%
iStar Financial, Inc.	-0.2%	1.3%
Corrections Corp. of America	-0.1%	1.2%
K-Swiss, Inc.	-0.1%	0.3%
Diamond Foods, Inc.	-0.1%	0.7%



New Positions

Security Name	Position as of December 31
Hanesbrands, Inc.	1.2%
Selective Insurance Group, Inc.	1.0%
Diamond Foods, Inc.	0.7%
Lone Pine Resources, Inc.	0.1%

Eliminated Positions

Security Name
Popular, Inc.

Top Ten Holdings

Security	Sector	% of Portfolio
Assurant, Inc.	Financials	4.5%
Energizer Holdings, Inc.	Consumer Staples	4.3%
Assured Guaranty Ltd.	Financials	4.1%
Kennametal, Inc.	Industrials	3.3%
Steiner Leisure Ltd.	Consumer Discretionary	3.1%
Berry Petroleum Co. (CI A)	Energy	2.8%
Whiting Petroleum Corp.	Energy	2.3%
Flowers Foods, Inc.	Consumer Staples	2.2%
Myriad Genetics, Inc.	Health Care	2.1%
LifePoint Hospitals, Inc.	Health Care	2.1%

Portfolio Statistics *(Portfolio composition is subject to change)*

Total Net Assets	\$778M
Median Market Capitalization	\$1.7B
Portfolio Turnover Rate (12 months trailing)	28%
Number of Equity Securities in Portfolio	69
% of Net Assets in Cash & Cash Equivalents	13.7%

5-Year Risk Statistics* *(Class A Load Waived)*

Annualized Standard Deviation (%)	20.61
Beta (%)	0.81
Sharpe Ratio	0.08
Alpha (%)	0.23
R-squared (%)	93.45
Upside / Downside Capture Ratio (%)	82 / 81

Sector Allocation* *(Overweight in bold)*

	Financials	Industrials	Consumer Discretionary	Energy	Consumer Staples	Health Care	Information Technology	Utilities	Materials	Telecom	Other	Cash & Equiv.
Small Cap Fund	24.9%	17.0%	12.3%	10.5%	10.5%	5.5%	2.9%	2.8%	—	—	—	13.7%
Russell 2000 Index	22.2%	15.8%	13.3%	6.0%	3.6%	12.6%	16.3%	3.7%	4.9%	0.8%	0.8%	—

* Sector allocations may not total 100% due to rounding.

Fund Identification & Expenses

Fund Inception: 12/29/2000

	Ticker Symbol	CUSIP	Maximum Sales Charge	Contingent Deferred Sales Charge	Management Fee	Distribution Fee (12b-1)	Other Expenses	Total Expense Ratio	Minimum Initial Investment: Class A: \$5,000 Class Y: \$500,000
A Shares	DHSCX	25264S304	5.00%	None	0.80%	0.25%	0.30%	1.35%	Distributions: Annual Lipper Classification: Small-Cap Core Morningstar Classification: Small Value
Y Shares	DHSYX	25264S692	None	None	0.80%	None	0.13%	0.93%	

²Contribution to Return (CR) is an approximate measure of the contribution by an individual position to the overall portfolio return of the stated period. A daily contribution for each position is calculated by multiplying the position's previous day ending position weight by its daily total return. The daily total return is determined by summing the end of day stock price and any dividends and dividing the result by the beginning stock price. These daily contributions are then geometrically linked to determine the CR for the entire stated period. The holdings identified do not represent all of the securities purchased, sold, or held in the Fund, and past performance does not guarantee future results.

Performance is not guaranteed. Performance returns assume reinvestment of all distributions. Returns for the periods less than one year are not annualized. Class Y shares include performance based on Class A shares, which was achieved prior to the creation of Class Y shares. These total return figures may reflect the waiver of a portion of a Fund's advisory or administrative fees for certain periods. In such instances, and without such waiver of fees, the total returns would have been lower. Average annual total returns illustrate the annual compounded returns that would have produced the cumulative total return if the Fund's performance had remained constant throughout the period indicated. The maximum sales charge for A shares is 5.00%; Y shares have no sales charge. Fund holdings and sector allocations are subject to change without notice.

An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other important information about the Fund(s) can be found in the Fund's(s) prospectus or summary prospectus which can be obtained at www.diamond-hill.com or by calling 888-226-5595. Please read the prospectus or summary prospectus carefully before investing. The Diamond Hill Funds are distributed by BHIL Distributors, Inc. (Member FINRA), an affiliated company. Diamond Hill Capital Management, Inc., a registered investment adviser, serves as Investment Adviser to the Diamond Hill Funds and is paid a fee for its services. Like all mutual funds, Diamond Hill Funds are not FDIC insured, may lose value, and have no bank guarantee.

† Risk Statistic Definitions: Standard Deviation is a statistical measure of the historical volatility of the portfolio. **Beta** is a measure of the volatility of a portfolio relative to the overall market. **Sharpe Ratio** is a risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. **Alpha** is a measure of the incremental return generated from active portfolio management. **R-squared** represents the percentage of the portfolio's movements that can be explained by the general movements of the market. **Upside/Downside Capture Ratio** measures a manager's ability to generate excess return above the benchmark return in up markets and retain more of the excess return in down markets. The upside/downside capture ratio is the Fund's up/down market return divided by the index's up/down market return. The up/down market return equals the linked returns for all quarters in which the index return was greater /less than zero.