

# Strategic Income Fund

## Investment Objective

- ◆ Providing current income and an attractive total return.
- ◆ Suitable for investors with a 3-5 year investment horizon.

## Portfolio Management



**Bill Zox, CFA**  
Manager



**Chris Bingaman, CFA**  
Assistant Manager



**Austin Hawley, CFA**  
Assistant Manager

## Investment Strategy

**BUY STRATEGY** The Fund 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 compensation received for bearing risk is attractive compared to the risks borne. The Fund allocates relatively more of its investments to those sectors that are expected to offer the best prospects for current income and capital appreciation.

**SELL STRATEGY** Generally securities are 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 opportunities available to the Fund.

**INVESTMENT UNIVERSE** The Fund invests at least 80% of its total net assets in income-producing securities, including Treasury bills, Treasury/Agency securities, mortgage-backed securities, investment grade and non-investment grade corporate bonds, trust preferreds, closed-end mutual funds, real estate investment trusts and master limited partnerships.

*The value of fixed-income securities varies inversely with interest rates; that is, as interest rates rise, the market value of fixed-income securities will decline. Lower quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.*

## Performance Update

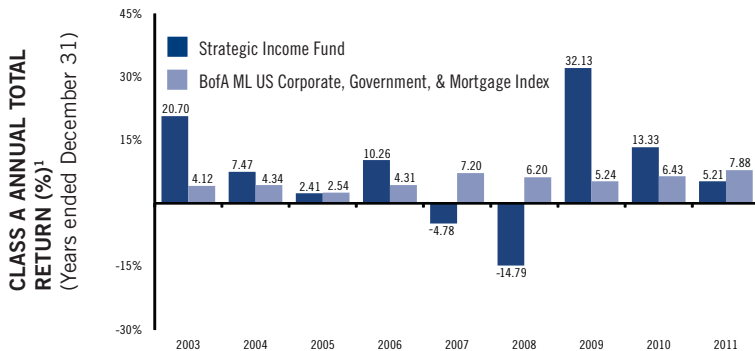
Period & Average Annual Total Returns as of December 31, 2011	Fourth Quarter	One Year	Three Year	Five Year	Since Inception (9/30/02)	Total Expense Ratio
<b>PERFORMANCE AT NAV</b> <i>without sales charges</i>						
Class A Shares	3.23%	5.21%	16.36%	5.03%	7.52%	1.02%
Class Y Shares	3.23%	5.21%	16.36%	5.03%	7.52%	0.61%
<b>BENCHMARK</b>						
BofA ML U.S. Corporate, Government & Mortgage Index	1.06%	7.88%	6.51%	6.59%	5.38%	—
BofA ML U.S. Corporate & High Yield Index	2.69%	6.80%	14.23%	6.68%	6.99%	—
<b>PERFORMANCE AT POP</b> <i>includes sales charges</i>						
Class A Shares	-0.34%	1.56%	14.99%	4.29%	7.11%	1.02%

*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](http://www.diamond-hill.com).*

The Bank of America Merrill Lynch US 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 US 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. 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.

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



## Security Type Allocation\*

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

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



## Top Ten Holdings

Security	% 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%

## Bond Quality Rating<sup>2</sup>

Quality Rating	% of Portfolio
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%

## Quarterly Dividend Distribution per Share (paid monthly)

	Class A	Class Y
Q1 2011	0.153	N/A
Q2 2011	0.159	N/A
Q3 2011	0.153	N/A
Q4 2011	0.161	N/A
Last Four Quarters	0.626	N/A

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

Total Net Assets	\$146M
Portfolio Turnover Rate (12 months trailing)	36%
Number of Holdings in Portfolio	49
% of Net Assets in Cash & Cash Equivalents	8.1%
Effective Duration <sup>3</sup>	2.61
Current 30-day Yield	
A Shares	4.64%
Y Shares	N/A

## 5-Year Risk Statistics<sup>†</sup> (Class A Load Waived)

Annualized Standard Deviation (%)	9.30
Beta (%)	0.81 <sup>†</sup>
Upside / Downside Capture Ratio (%)	94 / 141 <sup>†</sup>

<sup>†</sup> Relative to the BofA ML U.S. Corporate, Government & Mortgage Index.

## Fund Identification & Expenses

	Ticker Symbol	CUSIP	Maximum Front-End Sales Charge	Contingent Deferred Sales Charge	Management Fee	Distribution Fee (12b-1)	Other Expenses	Total Expense Ratio	Fund Inception: 9/30/2002
A Shares	DSIAX	25264S882	3.50%	None	0.50%	0.25%	0.27%	1.02%	Minimum Initial Investment: Class A: \$2,500 Class Y: \$500,000  Distributions: Monthly  Lipper Classification: Flexible Income  Morningstar Classification: Multi-sector Bond
Y Shares	DSIYX	25264S643	None	None	0.50%	None	0.11%	0.61%	

<sup>2</sup>The above security quality ratings are derived from the underlying securities of the portfolio, and are rated by Standard & Poor's. The ratings are historical and are based upon the credit quality, market exposure, and management of the underlying securities. The Standard & Poor's ratings represent an opinion only, not a recommendation to buy or sell. Diamond Hill Funds does not calculate a rating for securities that are not rated by Standard & Poor's. Unrated securities will show in the "NR" category.

<sup>3</sup>Effective duration is a measure of the interest rate risk of the Fund. Effective Duration is an estimate of the approximate percentage change in the Fund's net asset value that will result from a one percentage point change in its yield.

**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](http://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. **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.