DIAMOND HILL INVESTMENT GROUP, INC.
ANNUAL LETTER TO SHAREHOLDERS

March 12, 2015

Dear Fellow Shareholders:

Given the challenges that active managers have faced in recent years, I believe it is important to reiterate our commitment to our fiduciary responsibilities to our clients and shareholders.

> *The asset management industry is not complex but neither is it easy, especially as an active manager. Our fiduciary responsibility to our clients is crystal clear. We fulfill that responsibility by providing investment strategies that we believe will deliver long-term value to our clients' portfolios and then by communicating accurately the degree to which we have succeeded in that endeavor.*
>
> *Similarly, our corporate goal is to provide a return to our owners commensurate with the risk of our enterprise. This is measured by the capital returned to shareholders and the growth in the intrinsic value per share.*

I am pleased that, since inception, we have generally met this dual mission of delivering value to our clients and to our shareholders. Going forward, while our mission remains clear, it continues to be challenging as we experience countervailing winds: the benefit of more resources, offset by larger assets under management (AUM). Therefore, continuous improvement is required in all areas of the firm.

Investment Strategy Results for Clients

2014 was a difficult year for active managers with the S&P 500 Index return exceeding the returns of 80% of U.S. large cap strategies. For the five years ended December 31, 2014, nearly all of our investment strategies' returns trailed their passive alternatives, yet most of them ranked above average in peer comparisons. Passive strategies are frequently tough competition, which helps to explain their rise in popularity. In addition, the competition among active managers helps to make markets more efficient and in doing so helps the efficacy of passive management. Despite this competitive environment, we believe that we will add value above our investment strategies' passive alternatives over the majority of long time periods (as we have for most of our strategies since their respective inceptions), the past five years notwithstanding.

Financial Results: Shareholder Value

Revenue was $105 million in 2014 compared with $81 million in 2013 and $44 million in 2009. AUM finished the year at $15.7 billion, up 29% from 2013 and 149% from 2009 as a result of the strong U.S. equity market coupled with steady net inflows into our mutual funds. These net inflows likely represent an increase in our market share, which is still probably below 1% of the total value of comparable mutual fund assets.

Our 45% operating margin was considerably higher than last year's margin of 38% primarily as a result of a decrease in total compensation expense as a percentage of total revenues. A significant component of compensation expense is variable incentive compensation, which can fluctuate greatly from period to period. Incentive compensation expense is determined by many factors, including investment results in client accounts, individual employee contributions, company performance, and other factors.

Over the past five years, Diamond Hill's tangible book value per share has increased from $8.58 at the end of 2009 to $22.40 at the end of 2014. Additionally, we have paid $33 per share in dividends over the past five years ($53 per share since our initial dividend payment in 2008). The $33 per share in dividends and the $13.82 increase in tangible book value per share results in a total of $46.82 per share, which represents one measure of change in shareholder value during the past five years. While tangible book value is a component of intrinsic value, the percentage of intrinsic value it represents varies considerably between companies.

This analysis is comparable to another popular measure: total shareholder return (TSR), which takes into account both cash returned to shareholders and change in stock price. For Diamond Hill, this equates to approximately 26% annualized over the past five years. While the current stock price represents the market's estimate of a company's intrinsic value, a premise of our investment philosophy is that price and intrinsic value often differ, sometimes substantially. Thus, we believe the relevant measure of value creation, in addition to cash returned to shareholders, is the change in Diamond Hill's intrinsic value.

Executive Leadership

Our succession planning effort for the next generation of Diamond Hill Capital Management, Inc. executive leadership is now complete with Chris Bingaman serving as President and Lisa Wesolek as Chief Operating Officer. With Jim Laird's retirement at year-end, Tom Line was promoted to the role of Chief Financial Officer. Jim continues on the Board of Directors, and serves as our Corporate Secretary. Gary Young assumed Jim's role as President of Diamond Hill Funds and continues as our Chief Compliance Officer.

Our plan is for Chris to succeed me as Chief Executive Officer in January 2016. As I wrote in the Diamond Hill annual shareholder letter in March 2011, I intend to continue to serve as a portfolio manager. In addition, it is expected that I will succeed Don Shackelford as Board Chairman this year when his term expires.

The Next Five Years

During the next five years, and always, our top priority is to meet our fiduciary duty to clients. Adding value to our clients' portfolios is imperative for retaining and growing our client base. Secondly, adding new strategies that fit well with our existing strategies is something we will consider. Over the past few years, we have expanded our research effort to include more international companies. A deeper understanding of non-U.S. based companies not only allows us to be better investors, but also may lead to a global strategy in the future. Our commitment to an intrinsic value-based investment philosophy, long-term perspective, disciplined approach, and alignment with our clients' interests remains unchanged, as it has since our firm's inception.

Since the low point in March of 2009, the S&P 500 Index has tripled, outpacing economic growth over the same period. As a result, we believe equity market returns will be modest over the next five years, which certainly impacts our growth in revenues and profits.

Finally, our Beacon Hill subsidiary reached profitability last year, and we expect continued growth in their business. Additional tangential business opportunities are possible, but only when we believe that such opportunities would increase the intrinsic value of our entire firm.

We are a financially strong, well-positioned firm operating in a very competitive industry. While I would not want us to underestimate the various challenges, I believe that we will continue to build upon our past successes and to reward clients, shareholders, and associates accordingly. I thank our Board of Directors, and a special thanks to outgoing Board Chairman Don Shackelford, who like his predecessor David Meuse, provided me excellent counsel and support.

Sincerely,

R.H. Dillon

R. H. Dillon
Chief Executive Officer