

DIAMOND HILL INVESTMENT GROUP, INC.
ANNUAL LETTER TO SHAREHOLDERS

March 11, 2016

Dear Fellow Shareholders:

Last spring we achieved a milestone at Diamond Hill when we celebrated our 15-year anniversary as a firm with an outstanding team of dedicated professionals and client partnerships. As the new CEO of Diamond Hill, I would like to take a moment to express my gratitude to all my past and present colleagues who have contributed to creating what I believe is an excellent investment firm. Also, thank you to our shareholders for your continued trust and support.

We have communicated much of this in the past, however, I would like to reiterate a few of the key values which guide our organization. *Intrinsic value, long-term orientation, discipline and partnership* are at the top of our list of fundamental principles. As a fiduciary and client-centric firm, our foremost priority is generating strong investment results over sufficiently long time periods (which we define as at least five years) in each of our investment strategies. Next, because of our long-term investment style and disciplined approach toward identifying and holding securities with a margin of safety, we seek to partner with clients that are clearly aligned with both our philosophy and time horizon. Finally, we strive to maintain alignment with our clients and to consistently and effectively communicate our judgement, decisions and outlook.

We expect to accomplish the first critically important part of our mission, generating strong investment returns, by managing relatively concentrated, high conviction portfolios constructed independent of benchmark weights using a long time horizon and detailed research. Our intrinsic value-based philosophy is shared by all of our investment professionals, allowing us to apply this investment discipline across all of our strategies. Once again, we are very pleased with the progression of our firm; however, we are also mindful of the need for continuous improvement in all areas. There is little doubt that our competitors – both active managers as well as passive alternatives – continue to evolve and provide a wide range of investment choices in the marketplace.

Investment Strategy Results for Clients

After a multi-year period of strong gains in the U.S. equity markets, 2015 proved to be much more challenging on an absolute basis while relative performance once again remained elusive for most active managers as the vast majority trailed passive benchmarks. The year was marked by underperformance down the capitalization spectrum while much of the outperformance was concentrated in a narrow group of mostly large cap, technology-oriented companies. This likely explains why passive strategies continue to gather market share as many active managers struggle to outperform passive benchmarks net of fees. 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 passive alternatives over the majority of long time periods – as we have in most of our strategies since their respective inception.

Financial Results: Shareholder Value

Diamond Hill Investment Group generated revenue of \$124 million in 2015 compared with \$105 million in 2014 and \$57 million in 2010. Assets under management finished the year at \$16.8 billion, up 8% from 2014 and up 95% from 2010 as a result of the strong U.S. equity market coupled with net inflows into our strategies. Clearly these net inflows represent an increase in our still relatively small market share of the domestic market for active strategies.

Our 47% operating margin was modestly higher than last year's margin of 45%. This was primarily a result of a slight decrease in total compensation expense as a percentage of total revenues. A significant component of compensation expense is variable incentive compensation, which can fluctuate from year to year. Incentive compensation is determined by many factors but is primarily guided by the investment results generated for our clients, individual employee contributions and overall company performance.

Over the past five years, Diamond Hill's tangible book value per share has increased from \$2.68 at the end of 2010 to \$30.84 at the end of 2015. Additionally, we have paid \$25 per share in dividends over the past five years (\$58 per share in total since our initial dividend payment in 2008). The \$25 per share in dividends plus the \$28.16 increase in tangible book value per share equals a total of \$53.16 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 27% 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

With a very long runway (Ric Dillon announced in early 2011 his desire to step down as CEO) and therefore much deliberation, we have formed and implemented an executive leadership team (ELT) and business function reporting structure. In addition to myself, the ELT consists of our Chief Operating Officer, Lisa Wesolek and our Chief Financial Officer, Tom Line. Lisa heads the distribution, marketing and operations areas, while Tom leads the administration, compliance and finance functions of the firm. I intend to spend the majority of my time focused on my portfolio manager duties but will also be involved with all aspects of our company with an emphasis on the investment side of our business. I look forward to continuing to work with Lisa and Tom as they have brought tremendous experience and expertise to Diamond Hill. I have no doubt they will be instrumental in our leadership efforts going forward. With a relatively new team in place, succession planning at the senior level is likely to take a pause. However, we are always mindful that continuing to develop the next generation of leadership is a perpetual and most critical task. Toward that end, and to assist with the management duties we are responsible for, each of the three of us has a separate leadership team in place. We are all encouraged by the commitment and skills increasingly apparent among our growing organization.

While on the topic of leadership, I would like to take this opportunity to express special thanks to Ric Dillon, Don Shackelford and our Board of Directors. As many of you know, Ric is essentially the founder of our firm and much of the success over our first 15-plus years is due to his entrepreneurial vision, energetic drive and important contributions to Diamond Hill's foundational values. We are fortunate to have had Ric as a leader and will benefit from his continued role as chairman and portfolio manager. Also, Don Shackelford retired from our Board of Directors last year and was most recently Ric's predecessor as chairman. Don is an enormously successful business leader from central Ohio, and we are grateful for his steady guidance, wonderful humor and many important contributions over the past decade. Lastly, our Board of Directors now consists of highly experienced professionals with extensive knowledge of our industry. They have made important contributions to our company and their collective insights will be of great help going forward.

Outlook

As always, our top priority is to meet our fiduciary duty to our clients. Retaining and attracting highly skilled professionals is an essential aspect of our goal to add value to our clients' portfolios. We have a deep, highly skilled team in place and twelve unique equity and fixed income strategies available to clients in a variety of channels. We monitor capacity in each of these strategies and will close them when we believe they are nearing the point at which we can no longer add value for those clients. We closed two strategies to new investors last year, but continue to believe we have significant capacity in most of our other strategies. Additionally, we will continue to add new strategies when we see the combination of client interest and the requisite people and skills necessary to meet our expectation of adding value for our clients. Most recently, we launched the Diamond Hill High Yield strategy while our growing and increasingly experienced research effort may one day allow us to offer new investment strategies which include international holdings.

Although markets have experienced a meaningful correction since last August, they have still outpaced economic growth over the past five to six years and continue to look somewhat elevated due to the combination of historically lofty margins and generally full multiples. As a result, we believe equity market returns will be on the low end of the typical return range over the next five years, which could impact our growth in revenues and profits.

Finally, we are a financially strong, well-positioned firm operating in a very competitive industry. 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. Once again, now almost 16 years since our humble beginnings, I believe we have created an excellent investment firm with clear potential for further improvement and growth. We remain focused on our clients, mindful of the challenges and intent on building upon our past successes.

Sincerely,

Chris Bingaman
Chief Executive Officer