

# DIAMOND HILL INVESTMENT GROUP, INC.

## ANNUAL LETTER TO SHAREHOLDERS

April 9, 2009

Dear Fellow Shareholders,

As an asset manager, we act in a fiduciary capacity for our clients, and fulfilling this duty is our primary corporate objective. We endeavor to do so by achieving investment returns in our strategies that exceed passive alternatives by an amount sufficient to justify our fee for our services. Additionally, our strategies can provide clients with diversification benefits to the degree that their correlation with respective benchmarks is low. The importance of the length of the measurement period for determining the efficacy of our efforts is amplified in a year like 2008.

The financial markets collapsed last year, reflecting investor fear of worldwide economic decline. Credit market losses, primarily related to a downward spiral in real estate prices, prompted unprecedented actions by both government and monetary authorities around the globe. In time we will learn the adequacy of these actions, which will surely affect long-term investment returns.

We use five years as a definition of long term, noting it is only the beginning of a length sufficient for statistical significance, but perhaps the end of peoples' patience. For the five years ending December 31, 2008, equity indexes had negative compounded returns, making this one of the worst five year periods in history; and the only year in the period that was negative was 2008.

Fulfilling our primary corporate objective — meeting our fiduciary duty to our clients — has been very difficult in the current environment. For the past five-year period, our strategies had returns better than most of our competitors and generally above zero, although none provided absolute returns that met our goals given their respective asset class.

Growing our firm's per share intrinsic value is our second corporate objective. Good relative results help support continued solid net inflows into our mutual funds, and even stronger growth in our institutional separate account business. This was almost entirely offset by market value declines, and thus assets under management ("AUM") finished the year at \$4.5 billion versus \$4.4 billion a year earlier.

Our operating profit margin ("OPM"), excluding our new venture Beacon Hill Fund Services, was 32%, down slightly from the year earlier, but above average for the industry. The rapid decline in revenues that accompanies declining market levels (our fees are directly proportional to our AUM) continues to pressure profitability. Most of the large firms in our industry have announced personnel cutbacks to offset this pressure. As a much smaller firm that expects to continue to grow market share, we have no plans to do so, even though the short term impact is further margin pressure in 2009. Nevertheless, we expect to have an OPM better than the industry average again this year.

Last October, the company paid shareholders a special dividend of \$10.00 per share, which was deemed 100% return of capital for tax purposes. The amount of that dividend exceeds the value of the entire company when we began this journey nine years ago — a gratifying accomplishment. Rest assured that growing the intrinsic value per share will be at the top of our list (second only to meeting our fiduciary duty), and as circumstances warrant, we will return excess capital to shareholders.

Last year we funded a new venture, the aforementioned Beacon Hill Fund Services. Beacon Hill is a logical extension of the fund administration services we provide to the Diamond Hill Funds as evidenced by \$6 million in fund administration revenue in 2008. Through Beacon Hill, we will provide underwriting, treasury, compliance and related services to small to mid-sized mutual fund companies. We believe we can develop a growing business in this market niche, while serving our proprietary fund family and without distracting from our core business. We have invested \$2.5 million in Beacon Hill and hope to achieve a run rate breakeven by the end of 2009. Based upon

current projections, we anticipate attractive revenue growth and operating margins comparable to our investment advisory business.

I would like to thank my colleagues and our Board of Directors for their efforts and support. All of us at Diamond Hill Investment Group will continue our mission to build an excellent investment management firm for clients and owners alike.

Sincerely,

A handwritten signature in black ink that reads "R. H. Dillon". The letters are cursive and fluid, with a prominent loop on the "D" and a long, sweeping tail on the "l".

R. H. Dillon  
President and Chief Executive Officer