

DIAMOND HILL INVESTMENT GROUP, INC.

ANNUAL LETTER TO SHAREHOLDERS

April 5, 2010

Dear Fellow Shareholders:

This year's annual shareholder meeting will mark the 10-year anniversary of our corporate evolution to Diamond Hill Investment Group. In May 2000, our mission was to build an asset management firm to serve our clients through excellent long-term investment results. Over the past 10 years, we have attained recognition as a best-in-class firm in our industry, resulting in a profitable business for our shareholders.

During our first five years, Diamond Hill became financially *viable*, and during the past five years, we have become financially *profitable*. Importantly, we achieved profitability while continuing to share the business economics with our clients as evidenced by significant reductions in mutual fund administration fees. We also shared economics with our shareholders: for the second consecutive year, shareholders received a \$10 per share special dividend, which represented a tangible benefit of success during our first 10 years. During the next five years, we will continue to build the firm's infrastructure and capacity to make the firm *sustainable*. Creating sustainability will help us in fulfilling our fiduciary duty to clients — our primary corporate objective — while also providing a key component for growth in the company's intrinsic value per share.

The Past Five Years: 2005 through 2009

The U.S. stock market return was approximately zero for the five years ending December 31, 2009. During that same period, our client returns for our various strategies were modestly positive (compounding in the low- to mid-single-digit range, depending on the strategy). Our strategies' investment results rank very well among peers, which is an important consideration for people who select investment managers. Primarily due to new client growth, which in large part reflects our good relative investment results, we have been able to grow our business from \$500 million in assets under management (AUM) at the beginning of 2005, to more than \$6 billion by the end of 2009.

Profitability accompanied the growth in AUM. Operating profit margin (OPM) was 14% in 2005, expanding to 30% in 2009, while staff increased considerably during the same time period. In 2005, we were operating under a "portfolio manager centric" model, with portfolio managers performing the research function. Some firms prefer this model as it is less complex and costly than a model in which portfolio management and research are distinct and separate functions.

In 2006, we began to construct an internal research capability with the goals of:

1. Improving investment returns through utilization of a proprietary research source,
2. Developing investment talent to draw upon in future years, and
3. Allowing capacity expansion for existing strategies and development of new strategies.

We are very pleased with the progress to date. Our research coverage is now much broader with 11 research analysts and six research associates, and we plan to add further depth to our industry sector teams in the future.

The Next Five Years

At \$6 billion in AUM, Diamond Hill is among the smallest of public asset managers. Based on metrics used in a broad industry survey of 42 asset management companies (both public and private), our ranking relative to industry averages is summarized below:

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|---|---------------------------|
| AUM | <i>well-below</i> average |
| Effective advisory fee rates | <i>well-above</i> average |
| OPM | <i>above</i> average |
| Compensation as % of revenues | <i>above</i> average |
| Investment staffing levels as % of total staffing | <i>well-above</i> average |

We have been intentional about the primacy of the investment function in relation to the total organization. This is reflected in staffing and compensation, as well as in the maintenance of excess capacity to allow for high growth rates in AUM. We believe that both decisions have been important ingredients in our success to date.

Our sales, marketing and client services staff has expanded along with the investment staff, as our opportunities and revenue have increased due to our strategies' track records. Growth in staffing is a constraint on our OPM. However, *assuming we continue to realize OPM near current levels while significantly increasing AUM capacity and attaining broader distribution, the value of the firm should be greater for these efforts as long as our investment performance remains above average.* We will continue to investigate the possible addition of a global or international capability, because we believe the importance of understanding and following non-U.S. companies is essential to making us better investors.

One of the important decisions early in our history was re-incorporation and subsequent changes in the board of directors, with Jim Mathias remaining on the board for his long-term perspective and to ensure continuity. The most notable additions to the board were David Meuse, Dave Lauer, and Don Shackelford, very experienced business leaders in the Columbus community, bringing credibility to our fledgling corporation. No doubt this has served us well over the years, and now as we are entering a new phase, the board is once again evolving. This began in 2008 with Larry Baumgartner's election to the board. Larry brings specific experience as a portfolio manager and former chief investment officer. In 2010, Fran Skinner will be nominated to the board. Fran has more than 20 years of investment industry experience, with a specialty in organizational behavior and compensation, including co-authoring the book "High Performing Investment Teams." It is our desire to exhibit best practices in corporate governance, as well as investment management.

From the beginning of Diamond Hill, we have placed our fiduciary duty to our clients at the top of our priority list. We are pleased that the investment returns for each of our strategies compares well with peers and passive alternatives for the past five years. Our goal is to achieve these favorable comparisons for each rolling five-year period. We thank all our clients for entrusting us with their assets. I would also thank our Diamond Hill associates for their hard work, and our board of directors for their guidance. Finally, we appreciate our shareholders, many of whom are long term investors with us and all of whom we understand to be the owners of our enterprise.

Sincerely,

A handwritten signature in black ink that reads "R. H. Dillon". The signature is written in a cursive, slightly slanted style.

R. H. Dillon
President and Chief Executive Officer