DIAMOND HILL INVESTMENT GROUP, INC.
ANNUAL LETTER TO SHAREHOLDERS

March 14, 2011

Dear Fellow Shareholders:

Calendar year 2010 marked the completion of our tenth full year since Diamond Hill's change in corporate direction beginning in May 2000. By almost any measure, the past ten years were good for Diamond Hill's clients and shareholders. Most importantly, we have served clients well with above average ten-year and since inception investment returns from all of our strategies. Primarily due to these good results, assets under management grew from $25 million to $8.6 billion. We achieved profitability in our fifth year and became sufficiently profitable to pay an aggregate $33 per share in special dividends to shareholders over the past three years. Our history and corporate story are rare, if not somewhat unique. The vision we articulated at the beginning was to build an excellent asset management firm. We believe that we have achieved our initial goal and intend to build upon the achievements of the first ten years over the next ten years.

Firm Sustainability

We serve in a fiduciary capacity for our clients, and we believe that the concept of firm sustainability is essential to meet our fiduciary responsibility. On the first day we began to manage client assets, we set out to achieve favorable investment results over a five-year measurement period. As an active manager, in contrast to a passive or index manager, we interpret favorable to mean achieving:

1. absolute return sufficient for the risk associated with the particular asset class,
2. return greater than a passive (index) benchmark and
3. top quartile ranking versus peers.

We suggest that investment results be measured over at least a five-year period, which is the minimum period of time for statistical significance. While longer periods would be even better, few investors have the patience for anything longer than five years. We also know that some investors will not wait even five years, but such lack of patience does not influence our belief regarding what is necessary for us to fulfill our fiduciary duty.

The Next Generation

While the majority of our time is spent researching and analyzing other companies, we must also manage our own business effectively. In part, this involves developing an organizational structure that best positions us to deliver good client results as well as grow the firm's intrinsic value for our shareholders. We began as a portfolio manager-centric investment team. While our portfolio managers continue to have great flexibility and are the ultimate decision makers, we have also built a reputable research team intended to help us deliver excellent results for all of our strategies. Over time, our outstanding team of analysts has evolved and provides greater input into our research process and new idea generation.

Two years ago we started a research team managed strategy which we believe is very valuable in several ways. First and foremost, it is a vehicle by which research analysts can communicate and demonstrate conviction in their best ideas through the investment of capital. Secondly, once we have a five-year return history in this strategy, the results will be used to determine analyst incentive compensation, similar to portfolio manager incentive compensation. Finally, we would expect this strategy to be attractive to prospective clients and will likely open this strategy to investors beyond the original seed capital.

We have also begun developing the next generation of business management leadership intended to insure adequate succession planning in addition to serving the needs of a growing firm. In the early years of the firm, we had few employees and little need for anything other than the most basic organizational chart. As we exceed 60 associates with significant growth in our client base, our organizational structure must evolve in preparation for the next five years and beyond. This evolution benefits us in multiple ways. First, we are able to get more people involved in the deliberation of key business and organizational issues, thus establishing depth within our firm. Additionally, we are able to take advantage of the many talents that our associates bring to the organization by giving them expanded roles and promoting talent from within. Finally, by carefully defining the roles and responsibilities of each position, we can ensure that our investment team is able to maintain its primary focus where it has always been — finding good investment opportunities and achieving favorable results over rolling five-year periods.

In the spring of 2009, we created the Planning Group, consisting of seven associates representing all internal areas (three portfolio managers, one research analyst, and one each from client service, business development and operations). The Planning Group collaborates and recommends action on various initiatives and the overall direction of the firm, providing additional depth and expertise.

Both Jim Laird and I intend to continue as CFO and CEO, respectively, for the next five years. During that time, it is likely that our duties will increasingly be shared among the members of the Planning Group, which is evolving into a management committee. By the end of this five-year period, we expect to have completed the development of the next generation, achieving management sustainability.

2010 Results

Assets under management (AUM) finished 2010 above $8 billion, up from $6 billion a year earlier, while 2010 revenue was $57 million compared with revenue of $44 million in 2009. Our Large Cap strategy was the fastest growing in 2010 and is now the largest in terms of AUM. Our 33% operating profit margin (OPM) approximates the average from a survey of competitors, both public and private. We continue to add staff as needed, given our above industry average growth in AUM. We expect our OPM will vacillate around current levels or trend upward slightly over the next five years, depending importantly on our investment results as well as the general health of the U.S. financial markets.

At our annual meeting this April, we will honor our outgoing Board of Directors Chairman David Meuse. David was first elected to the board ten years ago, immediately lending credibility to our fledgling operation. His patience was necessary during the expensive startup phase of the first five years, and his experience with successful ventures provided a valuable perspective that helped guide us during the past five years. We also thank Diane Reynolds for her board service over the decade. Di has been a consistent supporter of our efforts to build the company.

Sincerely,

R.H. Dillon

R. H. Dillon
President and CEO