

DIAMOND HILL INVESTMENT GROUP, INC.

ANNUAL LETTER TO SHAREHOLDERS

March 14, 2012

Dear Fellow Shareholders:

As Diamond Hill enters its second decade (eleventh year), I am pleased to report that we continue to meet our primary corporate objective to fulfill our fiduciary duty to our clients. Our various strategies have produced competitive results since their respective inception dates, which is necessary for us to achieve success as a firm.

Because passive investment alternatives are available at a fraction of the cost of active management strategies such as ours, Diamond Hill's corporate existence primarily depends upon our strategy returns exceeding those of passive alternatives. Last year, we set forth our investment fee philosophy in the white paper "Active Management Fees & Alignment of Interests." Our goal was to illustrate the ways in which we work to meet our mission to serve our clients through a disciplined intrinsic value approach to investing, while maintaining our long-term perspective and aligning our interests with those of our clients. To ensure that we properly align our interests with those of our clients, our management fees are derived in part from our investment management goals. We first deduce goals for each of our strategies, and from these goals, we then determine our fee schedules. Clients are best served by a fee that is low enough to allow us to achieve meaningful outperformance relative to a passive alternative; yet at the same time, a fee that is high enough to allow us to build and maintain an investment team capable of achieving such results. Likewise, clients are best served by goals that are not only high enough to inspire outstanding performance, but also realistic enough to allow us to pay and retain top investment talent. In addition to creating appropriate quantitative incentive structures, we also recognize that the proper alignment of interests cannot be achieved unless we are diligent about only hiring individuals with high integrity and a fiduciary mindset.

Investment Research

Investment research is the heart of our firm, which explains the development of a best in class research team. I believe that we have one of the highest ratios of research analysts to assets under management in the industry, and I know that the quality and character of the individuals on the research team is second to none.

At the beginning of 2012, we converted the existing Diamond Hill Research Partners, LP into a mutual fund named Diamond Hill Research Opportunities Fund. The Research Opportunities Fund is a team managed strategy in which each research analyst is allocated a portion of capital (sleeve) to be invested in the industries he or she covers. Since its inception on March 31, 2009, this strategy has had excellent investment results. The strategy was initiated because we believe that we can add value relative to a passive benchmark over time by allowing our research analysts to apply their deep industry-specific expertise within a very flexible mandate. As important is the role it serves for our overall investment effort. The Research Opportunities Fund provides a vehicle for research analysts to demonstrate conviction in their best ideas through the investment of capital and communicate their level of conviction in portfolio recommendations to the portfolio managers. The strategy also serves as a measurement tool for compensation purposes and is beneficial for developing, retaining and attracting analysts to Diamond Hill. The Research Opportunities Fund is purposely structured as an all cap, long-short product so that our research efforts will continue to support all of our strategies.

Succession Planning

In last year's letter, I discussed our five-year plan for management transition to the next generation. The process of succession planning is among the most important efforts underway at Diamond Hill. My own plan is to continue to serve as CEO through the end of 2015 and as an investment team member and portfolio manager for our Long-Short strategy beyond 2015. Because of this plan, it is increasingly important that my duties be shared among the many talented individuals at Diamond Hill in order to complete the development of the next generation and achieve organizational sustainability. As prospective clients assess the sustainability of our firm, I am happy to report that not only has this process been smooth and healthy, but also in many ways it has revealed the quality and depth of the leadership among our second generation.

Creating Shareholder Value

Over the past eleven years, we have grown the intrinsic value of our business for our owners. Last year, we returned essentially all of our net profits to shareholders in the form of a special dividend, and during the past four years, we have returned \$38 per share, over \$100 million, in cash to our owners. This type of cash payout rate is rare in corporate America, as is the fact that every Diamond Hill employee is a shareholder. This is one of many examples where we strive to establish policies and practices that are optimal for aligning interest and creating value, rather than simply mimicking the norm. I believe that this distinguishes Diamond Hill in many important ways and helps to explain our past success, and it is my strong conviction that we continue this practice.

Sincerely,

A handwritten signature in black ink that reads "R. H. Dillon". The letters are cursive and fluid, with the first letters of each name being capitalized and prominent.

R. H. Dillon
President and Chief Executive Officer